



PRIVATE EQUITY CHALLENGE

INVESTMENT COMMITTEE PAPER KORIAN

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Industry & Business Overview

Korian SA is the European Leader of Elderly Care. It operates at all the levels of dependency, from home care, assisted living, nursing homes and specialized clinics. It is currently present in 4 countries: France, Germany, Italy and Belgium.

The [Elderly Care market shows very robust growth trends](#). It is estimated that the population over 80 in Europe will increase by a CAGR of 2.4% over the next 15 years. Furthermore, the prevalence of elderly-related diseases (such as Alzheimer's) will further drive the demand for nursing homes and professionalized nursing care.

This market is highly fragmented, with considerable economies of scale. This means that M&A can further drive growth, through the acquisition of smaller operators. Finally, Korian operates in a non-cyclical industry, which ensures stability of cash flows and good performance of the buyout regardless of economic conditions.

Investment Thesis

- 1 [Consolidation](#) of smaller operators, in a highly fragmented market
- 2 [Internationalization](#) to Sweden, a shifting market with opportunities for private operators
- 3 [Operational Turnaround](#) in Germany, addressing the staffing problem through Korian's international network
- 4 [Real Estate Portfolio](#) optimization, and capital shift to care provision, Korian's core business

Value Creation

- 1 Topline growth of [10% CAGR](#), with a network expansion in the countries where Korian operates of [23,000 beds](#) in 310 facilities. Acquisition multiples at 5-7x (confirmed with recent transactions) ensures [multiple arbitrage](#), while economies of scale and implementation of Korian's operating efficiency [an expansion of EBITDA](#) of bolt-ons.
- 2 Acquisition of [Vardaga](#), a leading Swedish Nursing Home operator and part of the Healthcare Group Ambea. This will mean an additional 79 facilities, and this acquisition represents a natural fit for both businesses, as Vardaga can take advantage of Korian's know-how in the [shift from outsourcing to private for-profit](#) operation of nursing homes, while Korian has access to one of the markets with [highest daily rates, most public contribution to healthcare and highly favorable demographics](#).
- 3 A decline in occupancy rates for Germany nursing homes has been driven by a staff shortage of nurses. By implementing our strategy of hiring professionals abroad, we are going to improve occupancy rates and profitability in this geography.
- 4 Through optimization of Korian's Real Estate Portfolio, we will free capital which can be deployed in the core business of providing care to senior citizens. We are expecting overall proceeds of € 376m.

Valuation

In our view, an **EV/EBITDA multiple of 11.5x** values Korian fairly. This multiple is in-line with **precedent transactions** in the industry, specifically of large, multi-country operators (Casa Reha, Domus Vi, Alloheim).

This implies a **premium of 20%** on the current share price, and a valuation above the trading multiple over the last 5 years for Korian.

Analyzing multiples across the cycle for the peer group, we also conclude that **current trading multiples are below historical levels**, so we are confident this is a good entry point and that an **11.5x entry multiple** is an accurate valuation of Korian.

Transaction Summary

Sources of funds:

Purchase price of **€5070.4M**, EBITDA of €437.0M and entry multiple of 11.5x, and including pipeline adjustments of €45.3M. Total fees of €227.7M

Uses of funds:

In-line with discussions with BNP Leveraged Finance team, leverage of **7.5x** and a **bullet structure** that allows higher investment in Korian's expansion.

Composed by €2,401.3M of senior debt and €873.9M of subordinated debt.

Potential for **co-investment partner**, given the considerable deal size.

Entry

Entry Multiple
11.5x

Enterprise Value
€5,070.4M

Equity Value
€3,370.6M

Summary Financials

Revenue Growth
€1,794M, 10% CAGR

EBITDAR Margin
26.7% to 27.7%

EBITDA Growth
€297M, 13% CAGR

CAPEX Invested
€1,134.0M

Deleveraging
7.5x to 3.2x

Sweet Equity
5%

Exit

Exit Multiple
11.5x

Enterprise Value
€8,442.9M

Equity Value
€6,043.9M

Value Creation

IRR
24.0%

Money Multiple
2.91

Company Overview

by Lorenzo Redaelli

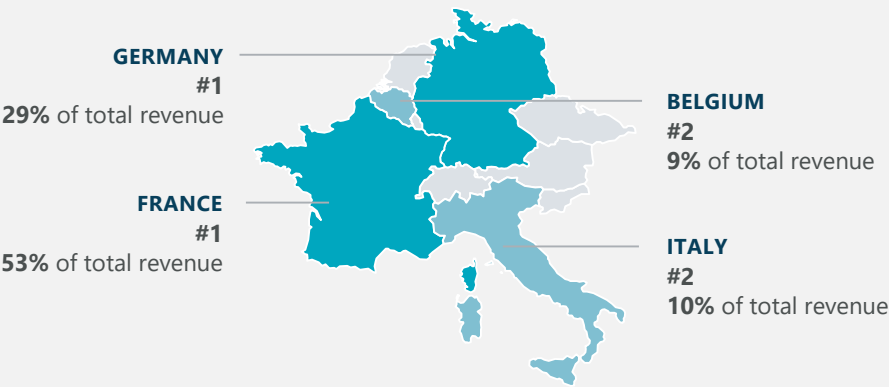


Company Overview | Business Model

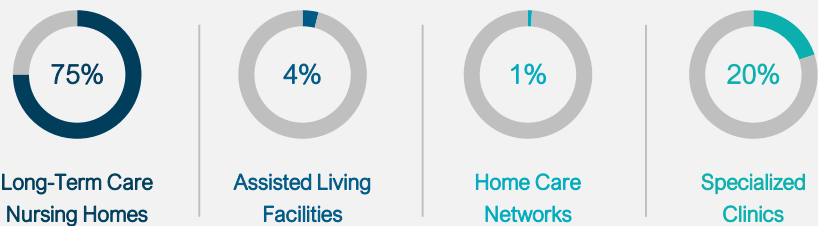


Korian presents a “one-stop shop” solution for seniors, by offering a range of complementary services adapted to every stage of ageing.

1st in Europe in senior care services



BREAKDOWN OF REVENUE BY ACTIVITY



At the beginning, Korian solely operated nursing homes and specialized clinics. Only recently it started developing its assisted living and home care segments.

Korian offers a broad range of services for the elderly, regardless of their age, health requirements and other needs.

LONG-TERM CARE NURSING HOMES

Designed to permanently accommodate dependent elderly people, who have complex and costly care requirements. It is offered a tailored care to each resident's degree of dependency, with the maximum level of comfort and also other services. Moreover, leisure activities are also available to stimulate social interaction

ASSISTED LIVING FACILITIES

Independent living is combined with continuously available assistance and personalized care. Individual apartments are equipped to provide the greatest possible independence, while ensuring safety and security. Additional services provided consist of catering, laundry, sauna and spa, geriatric sports or social activities.

HOME CARE NETWORKS

Developing area, capable of providing ongoing and coordinated care to patients suffering from a serious, acute or chronic illness. Both hospital and nursing assistance are provided at the patient's place of residence, as an alternative to hospitalization. These services cover the full range of patient needs.

SPECIALIZED CLINICS ⁽¹⁾

These clinics are designed for people who need complex post-operative care or who suffer from slowly progressive or chronic illness, and that can no longer be treated at home. Short-term personalized care is provided to each patient to help them recover as much of their capabilities so they can return to their homes.

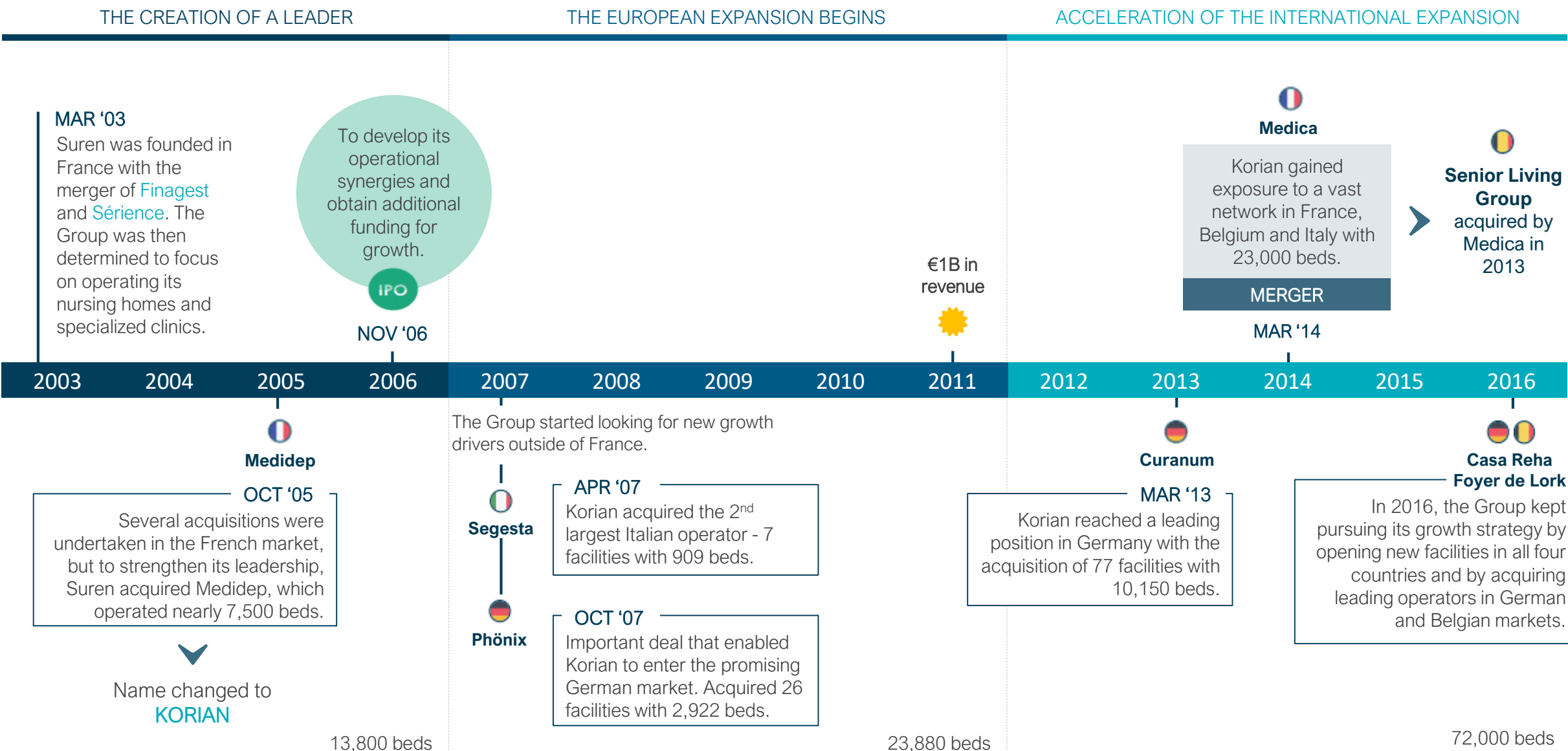
Korian has been adding value through a **joined-up approach**, by connecting the different activities at local level to leverage its asset base.

(1) Exist only in France and Italy and represent around 1/3 of revenues of both countries.

Company Overview | Korian's History



Korian has been successful in expanding its network, as represented by the number of beds' CAGR of 18% in the last 10 years.



Due to its size and reputation, Korian is in a privileged position to take advantage of the favorable market conditions.

COMPETITIVE ADVANTAGES

Client brand recognition	Employee brand attraction	Relationship with authorities	Synergies and process optimization	Strong local platforms	Excellence and quality
<ul style="list-style-type: none">With its critical mass, Korian offers both the brand recognition and visibility, which are essential to maintain a good relationship with administrative authorities and in recruiting quality personnel.Significant cost synergies are generated by having a structured management to monitor the network of facilities and ensure a centralized management of support functions.Its dense geographic network facilitates relations with local administrative authorities and logistics (relations with headquarters, partnerships and service providers).Tailored modern, well-equipped and well-maintained facilities, most often in urban centers and medical approach focused on high value-added services for patients.					

PRICING POWER ⁽¹⁾

Regional business - pricing power highly dependent on the supply in that community and the competitors' pricing.










Trade-off between higher tariffs and higher occupancy rates.

(1) More details on this topic are provided in the Industry Overview section of this presentation.

HOW DOES KORIAN ATTRACT CUSTOMERS?

- It is present in most urban centers, operating in quality facilities.
- Known brand, increased referral.
- Korian's business model offers a complete continuum in the elderly services which has the advantages of easily gaining client trust and also creating a unique client attraction channel.

MAJOR GROUPS IN THE SECTOR

Service Offering	Geographical Reach (# of countries)			
	1	2-3	4-5	>5
			Attendo 	
	 	  		
Services apart from senior care				
Other senior care services				
Typical Nursing Homes				

Company Overview | Financials (1/7)



Revenue growth has relied heavily in acquisitions, visible with the steadily decreasing organic growth rate since 2011.

	2011	2012	2013	2014	2015	2016
Revenues	1,015	1,108	1,371	2,222	2,579	2,987
% growth	-	9.2%	23.7%	62.1%	16.1%	15.8%
Organic growth	5.4%	4.5%	4.1%	3.6%	2.4%	3.8%
COGS	64	71	93	173	212	236
	6.3%	6.4%	6.8%	7.8%	8.2%	7.9%
Personnel expenses	480	531	656	1062	1267	1505
	47.3%	47.9%	47.9%	47.8%	49.1%	50.4%
External expenses	183	188	205	298	326	353
	18.0%	16.9%	15.0%	13.4%	12.6%	11.8%
Taxes and duties	40,224	44,24	45,223	75,144	95,134	96,661
	4.0%	4.0%	3.3%	3.4%	3.7%	3.2%
EBITDAR	247	275	370	614	678	796
mg.	24.4%	24.8%	27.0%	27.6%	26.3%	26.7%
Rents	125	138	191	299	338	375
	12.4%	12.4%	14.0%	13.4%	13.1%	12.6%
EBITDA	122	137	179	315	340	421
mg.	12.0%	12.4%	13.1%	14.2%	13.2%	14.1%
Depreciation	37	45	63	99	124	156
Other operating income/expense	(5)	(6)	(16)	(35)	(37)	(25)
OPERATING PROFIT	79	87	100	181	179	241
mg.	7.8%	7.8%	7.3%	8.2%	6.9%	8.1%
Net financial costs	33	34	45	74	65	123
EBT	46	53	56	107	114	118
mg.	4.6%	4.7%	4.1%	4.8%	4.4%	3.9%
Income Tax	(20)	(27)	(24)	(43)	(53)	16
Net Profit	25	26	31	65	61	133
mg.	2.4%	2.3%	2.3%	2.9%	2.4%	4.5%
Avg Occupancy Rates	95.0%	89.0%	92.0%	93.3%	92.4%	90.7%
# of beds	23,808	34,724	34,094	57,058	59,715	81,186

Revenue CAGR₁₁₋₁₆ 24%

Visible focus on **acquisitions**, as organic growth* has been decreasing since 2009. Even if a growth of 3-5% it is still a remarkable achievement, meaning that the company is increasing its market presence by exploiting its current assets. To revert this alarming trend, CEO Yann Coleou was replaced by Sophie Boissard. The rebound in 2016 is due to the later's focus of growing organically.

- **2013:** acquisition of Curanum, a German operator with 10,000 beds - first major acquisition made outside of France.
- **2014:** “merger of equals” with rival Medica (22.800 beds), creating the largest provider of elderly care in France.
- **2015:** growth driven by acquisitions made in all four countries, with a higher contribution coming from the ones made in Germany (2,018 beds).
- **2016:** Germany and Belgium were the main drivers of growth with the opening of 590 beds in 6 new facilities in Germany and the opening of 180 beds in Belgium. The company also acquired Casa Reha in Germany (10,200 beds) and Foyer de Lork in Belgium (1,500 beds).

*Organic Growth comprehends revenue increase from: mature facilities, restructured facilities, Greenfields and acquisitions in the portfolio for more than 1 year.

Company Overview | Financials (2/7)



Korian has a considerable high fixed cost base, with high staff requirements and rents which correspond to c. 60% of revenues.

	2011	2012	2013	2014	2015	2016
Revenues	1,015	1,108	1,371	2,222	2,579	2,987
% growth	-	9.2%	23.7%	62.1%	16.1%	15.8%
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Investment Committee Paper

January 25th, 2018

Costs

- **COGS and external expenses** have been decreasing since 2015/2016 due to the creation of multi-country contracts to obtain hygiene and cleaning products, office supplies and equipment.
 - Korian spent 8,200€ per bed in 2016, comparing to 6,800€ spent by Orpea, pointing that there is room for improvement.
 - External expenses' incredible reduction since 2011 in line with number of beds increase, showing the scalability potential of supply contracts.
- **Personnel expenses** represent the biggest component of Korian's cost base, due to high requirements in terms of nurses, doctors and other professionals.
 - Increase in 2015 due to the impact of the harmonization costs, which brought to an increase of over 1.7% in the wages of 6000 Medica employees and an increase of over 1/3 in the end year bonuses of Korian employees.
 - In 2016 there were staff shortage and wage inflation in Germany, increasing the staff costs.
- **Taxes and duties** refer to taxes related to property and operating licenses.

Korian has a **medium-high fixed cost base**.

Company Overview | Financials (3/7)



Visible difficulty in integrating Medica, as shown by the reduced EBITDAR margins since 2014.

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% growth	-	9.2%	23.7%	62.1%	16.1%	15.8%
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Profitability

- After the merger with Medica in 2014, Korian had some difficulty in integrating it. This diversion of focus allied to several acquisitions of usually less efficient facilities in the four countries in 2015, resulted in **decreasing EBITDAR margins** for the group.
- In 2016, the EBITDA margin improvement was due to **rent negotiations** that enabled the company to make some savings.
- Other operating income/expense refers to gains or losses with acquisitions and disposals.
- Net financial costs increased significantly in 2016 due to **new debt issuing**: credit facility signed and Euro Commercial Paper program. As a result, EBT margin decreased in 2016.
- Korian was not subject to **income tax** in 2016, due to changes in French regulation and the increase in deferred taxes, in line with the France 2020 Tax Plan. As a result, the profit margin increased significantly in 2016 to 4.5%.

Company Overview | Financials (4/7)

Decreasing tariffs in the post-acute care and a staff shortage are decreasing margins in Italy and Germany, respectively.

A closer look on profitability by country:

		2011	2012	2013	2014	2015	2016
 FRANCE	Rev (M €)	713	762	766	1 323	1 536	1 572
	Rev growth	8,6%	6,9%	0,5%	72,9%	16,1%	2,4%
	EBITDAR mg.	24,6%	24,6%	26,3%	27,8%	26,7%	27,2%
Beds CAGR₁₁₋₁₆		15.6%					
 GERMANY	Rev (M €)	139	157	414	476	519	852
	Rev growth	16,9%	13,2%	164%	15,1%	9%	64,2%
	EBITDAR mg.	26%	27,6%	29,8%	30,2%	27,7%	27,0%
Beds CAGR₁₁₋₁₆		41.2%					
 ITALY	Rev (M €)	164	190	192	266	306	303
	Rev growth	17,8%	16,1%	1%	38,5%	15,2%	-1,1%*
	EBITDAR mg.	22,1%	23,2%	23,9%	24,0%	22,9%	22,9%
Beds CAGR₁₁₋₁₆		4.8%					
 BELGIUM	Rev (M €)				157	218	259
	Rev growth					39,1%	18,8%
	EBITDAR mg.				24,9%	25,2%	26,7%
Beds CAGR₁₄₋₁₆		19%					

Caused by the Medica merger that brought increased personnel expenses and heavy losses at a recently acquired facility.

Why is Italy so different?

- Revenue down in 2016 due to the planned shutdown of 4 facilities.
- There is a focus on post-acute clinics (c.30% of revenues), which require more specialized professionals, and whose price is started declining due to Government budget constraints.
 - In 2013, the cost per employee in Italy was 30% higher than in Germany.

Germany's higher EBITDAR margin potential is due to two reasons:

- Nursing Homes and Assisted Living offered in shared facilities.
- No specialized clinics.



Staffing Problem in Germany

Difficulty to find qualified nurses due to the low number of graduations in this field, resulting in higher personnel expenses and lower occupancy rates given the unavailability of staff.

Given the importance of the German market for Korian (29% of revenues), we will try to assess and mitigate the impact of the staff shortage to bring margins back to the levels prior to 2015.

Company Overview | Financials (5/7)



Korian's asset base mainly composed by Goodwill, followed by Intangible Assets and Property, Plant and Equipment.

	2011	2012	2013	2014	2015	2016
Goodwill	688	667	749	1 618	1 707	2 175
Intangible fixed assets	684	658	670	1 713	1 701	1 718
Property, Plant and Equipment	405	387	557	1 165	1 296	1 670
Other	58	156	72	142	180	217
Non-current assets	1,834	1,867	2,048	4,638	4,884	5,780
Inventories	3	3	4	7	8	10
Trade receivables	92	78	88	143	154	168
Other receivables	119	121	136	232	200	225
Financial instruments	0	0	0	0	0	2
Cash and cash equivalents	41	163	52	235	519	310
Current assets	255	364	280	618	881	714
Total assets	2,089	2,232	2,328	5,256	5,765	6,494
Share capital	164	170	174	395	397	401
Premiums	277	285	293	917	927	842
Retained earnings	262	260	278	591	598	781
Non-controlling interests	20	21	23	-2	11	14
Total shareholders' equity	723	735	769	1,902	1,934	2,037
Borrowings	623	665	714	1,638	2,069	2,442
Other	276	294	284	753	810	872
Non-current liabilities	898	959	997	2,391	2,878	3,314
Trade payables	114	124	136	239	228	250
Borrowings	37	60	59	78	95	183
Other	316	354	367	646	630	710
Current liabilities	468	537	562	963	953	1,143
Total liabilities	1,366	1,497	1,559	3,354	3,831	4,457
Total equity + liabilities	2,089	2,232	2,328	5,256	5,765	6,494

Non-Current Assets

- **Goodwill** represents the largest part of Korian's assets, related to previous acquisitions.
- **Intangible fixed assets** are mainly composed by licenses to operate nursing homes, recorded at €1,599M.
- **Property, Plant and Equipment** is mainly composed by Land & Buildings, recorded at €1,322M.
 - The net value of PPE held under financial leases was €724M, totaling a commitment of €719M.
 - There are also €3,794M of commitments to operating leases which are not capitalized in the balance sheet.
- Korian's **Real Estate portfolio** is largely concentrated in France, where Korian's legacy status and market knowledge allow for higher asset ownership.
 - Korian owns 96 buildings (14% of its facilities), which are valued at €1,280M.
 - Korian rents 614 buildings (86% of its facilities), with length of rentals ranging from 9 to 27 years.

Company Overview | Financials (6/7)



Due to its business characteristics, Korian as low Working Capital Requirements, averaging 0.12% of revenues.

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Goodwill	688	667	749	1 618	1 707	2 175
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Working Capital Requirements

- Korian has around -€72m of working capital requirements, due to higher number of days payable versus days receivable.
 - Working capital investments in the last 5 years have been very low, averaging a total of 0.12% of revenues.

Leverage

- Korian's debt base is diversified across multiple debtholders and financing sources:
 - €650M available on a revolving credit facility;
 - €838M in real estate debt, consisting mainly of finance leases with long maturities;
 - €1,021M in bonds placed with private investors;
 - €50M in commercial paper;
 - €58M in other borrowings.
- Average cost of debt (excluding leases) was 2.97% in 2016.
- Debt secured with collateral, a mortgage or lease accounted for 15.6% of gross borrowings.
- Korian's restated⁽¹⁾ Net debt to EBITDA was 3.2x (covenant is 4.5x)

	2011	2012	2013	2014	2015	2016
Net Debt To EBITDA	5.04x	4.04x	2.10x	4.12x	4.81x	5.48x
Days Payable	41.17	40.77	36.17	39.20	32.29	30.61
Days Receivable	32.91	26.21	23.52	23.42	21.83	20.56

(1) = (Net Debt – Real Estate Debt) / (EBITDA – (6.5% x Real Estate Debt))

Company Overview | Financials(7/7)



Korian generates a high cash flow from operations, around 10% of revenues.

	2011	2012	2013	2014	2015	2016
Net Profit/(Loss)	25	26	31	65	61	133
Net depreciation, amortisation and provisions	32	48	58	98	146	160
Deferred taxes	-1	-2	-5	6	1	-73
Gain or loss at fair value and non cash items	1	1	-1	-1	-1	-6
Gain on disposal of assets	2	-15	1	2	2	-0
Cash flow after cost of net debt	59	59	85	169	209	215
Elimination of acquisition costs of securities	3	0	5	1	5	1
Elimination of net interest paid	32	32	43	68	52	88
Change in the working capital requirement	4	35	-14	8	-21	4
Net cash generated from operations	98	126	119	247	245	307
<i>As a % of Revenues</i>	<i>9.7%</i>	<i>11.4%</i>	<i>8.6%</i>	<i>11.1%</i>	<i>9.5%</i>	<i>10.4%</i>
Impact of changes in scope (acquisitions)	-83	-22	-83	-35	-75	-392
Impact of changes in scope (disposal)	17	8	67	5	4	3
Payment for PP&E and intangible assets	-79	-73	-121	-113	-140	-160
Payment for other financial investments	-4	-2	1	3	3	1
Proceeds from disposal of non current assets	40	57	72	7	16	40
Net cash from/(used in) investing activities	(108)	(31)	(64)	(132)	(193)	(509)
Free Cash Flow	(9)	95	54	115	51	(201)
Increase in financial liabilities	100	132	185	1,417	503	200
Repayment of financial liabilities	-55	-67	-299	-1,243	-184	-89
Net interest paid	-32	-32	-43	-76	-52	-97
Dividends paid to shareholders of the parent	-19	-5	-8	-47	-35	-29
Net cash from/(used in) financing activities	2	27	(165)	68	230	(14)
Change in cash position	(8)	122	(111)	184	281	(216)

Cash Generation

- Korian is a highly cash generative business:
 - Cash generated by operations has been 9-11% of Revenues, with a growth in line with the expansion both at greenfield and acquisition levels.
 - Even accounting for maintenance capital expenditures (2.5-3% of revenues), cash generation is still at a healthy 6-8%.

Casa Reha (€291m) was the largest acquisition in the period, in large part due to the high level of real estate.

Korian has generated positive free cash flows, and tends to reinvest the majority of the proceeds into the business

Korian underwent a major debt restructuring in 2014, in-line with the internal restructuring following the merger with Medica

Company Overview | Share Ownership



Korian enjoys a solid shareholder structure, which makes fund raising on the market a viable option.

Share Ownership

Share holdership as of December 2016



Other Significant Asset Manager positions in Korian

Asset Manager	# shares	% of outstanding
Threadneedle	2.22m	2.74%
Norges Bank	1.58m	1.95%
Exane	1.37m	1.70%
Dimensional Fund Advisors	1.06m	1.31%
The Vanguard Group	1.01m	1.25%
BNP Paribas	832.63k	1.03%
Azimut Capital	779.00k	0.96%

Other Share Ownership

- Only disclosed information on CEO Sophie Boissard, with 388 shares by Dec-16.
- Board of Directors as a whole owns 14,667 shares in Korian (0.018% of float)
- French employees own a total of 130,000 shares in Korian, as part of a program initiated at the time of the merger with Medica. c. 0.2% of total float.

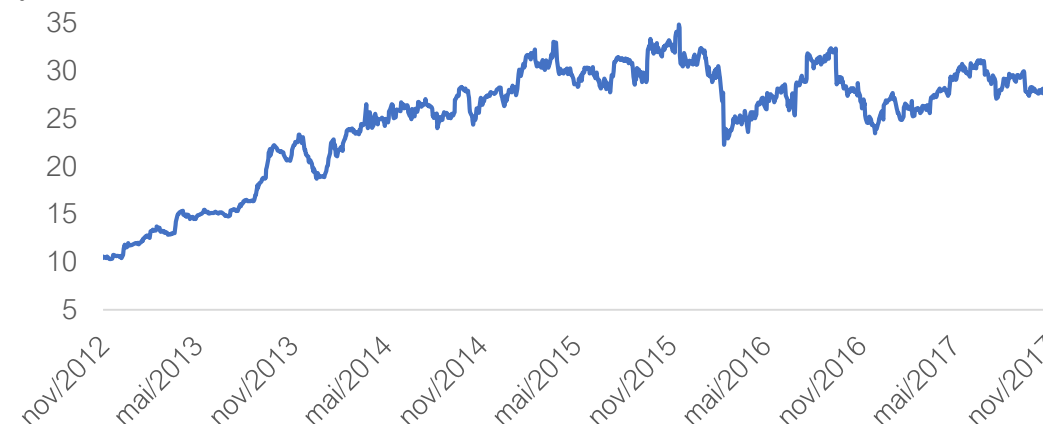
Source: Company Reports, Bloomberg
Investment Committee Paper

Share Price Information

Average daily volume	135538 shares (€3,776m)
High (12 months)	€ 32.13
Low (12 months)	€ 23.76
1-year return	7.03%
YTD return	0.05%
Market cap.	€2.256m
Number of outstanding shares	80.982.343 shares
Tickers	Kori FP (Bloomberg) FR00 10 386 334 (ISIN) KORI.PACode (Reuters)

Korian Share Price Performance over last 5 years

Adjusted Price, €



January 25th, 2018

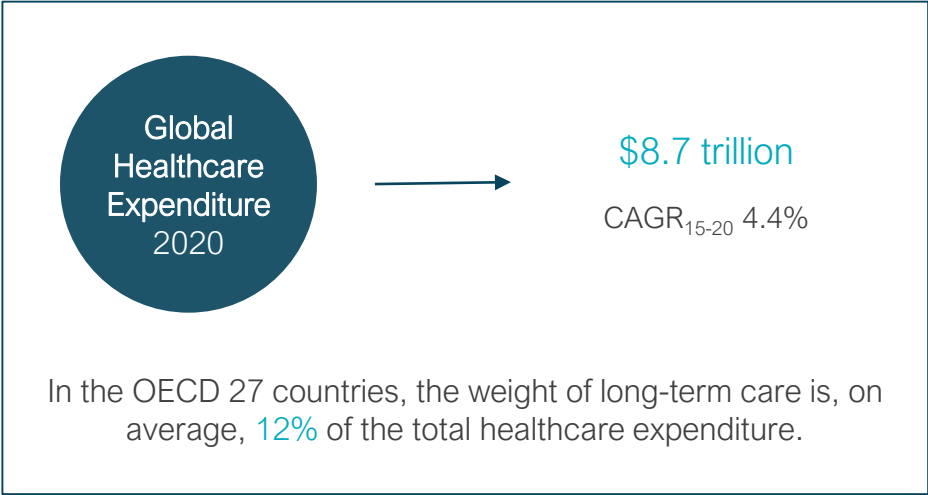
Industry Overview

by Lorenzo Redaelli



The European nursing home market lacks beds to support the expected booming demand in the following years.

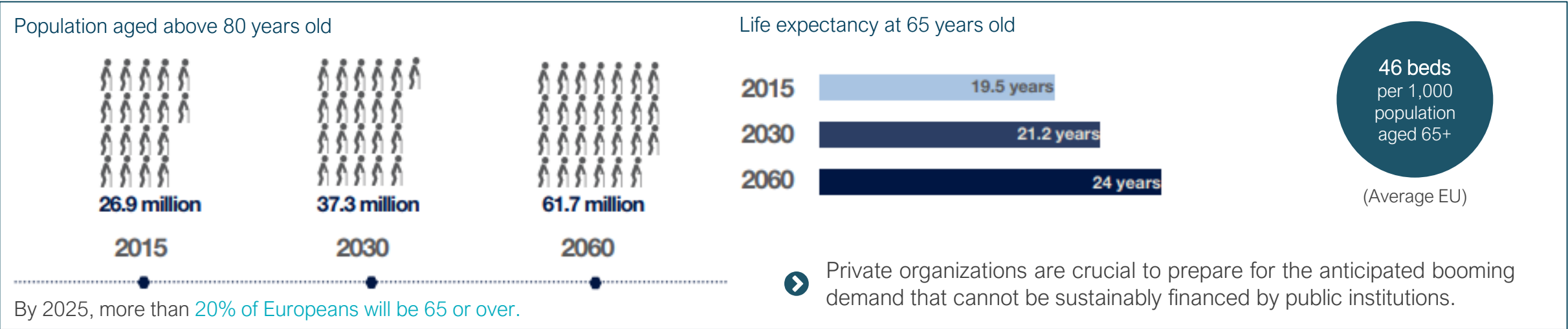
GLOBAL HEALTHCARE MARKET



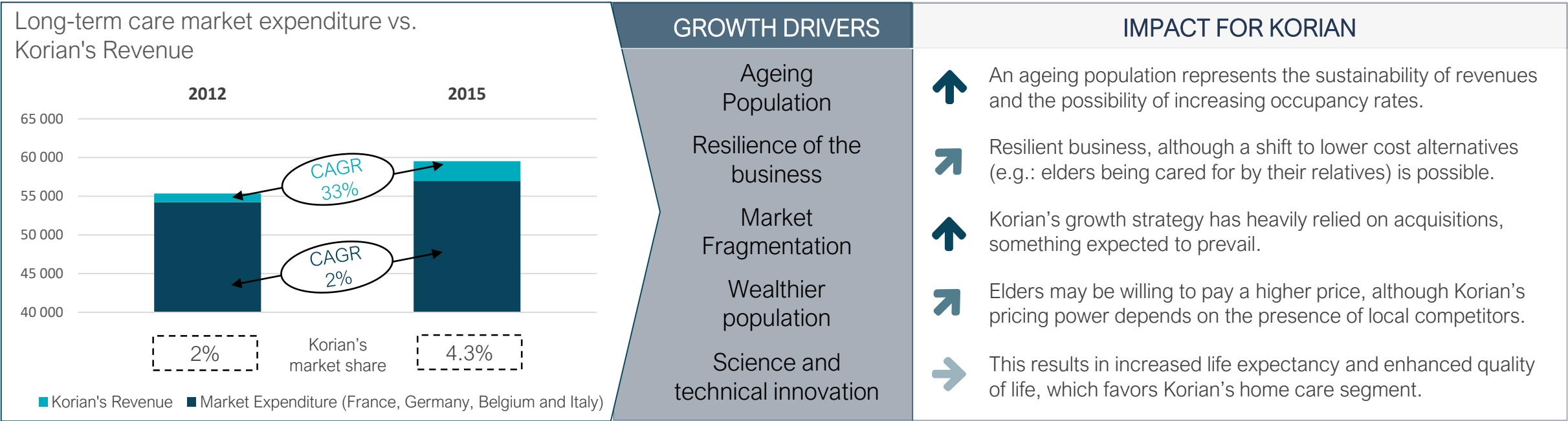
EUROPEAN NURSING HOME MARKET



AGEING EUROPEAN POPULATION



Social and demographic factors are sustaining the global Healthcare Market's growth.



TRENDS

- **Dementia** (affects 50-70% of nursing homes residents) is increasing in every region of the world and it is expected to double every 20 years.
- Elders are typically **entering care homes considerably later in life**, residing for far **shorter periods** but requiring much **more specialized care** during their stay.
- Market is undergoing a **period of expansion**, largely driven by the private sector, and it is visible **strong M&A activity**.
- **Cultural shifts** are increasing the demand for dependency care facilities - smaller family units, female labor market participation, mobility across countries.

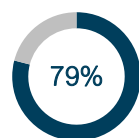
Industry Overview | France, Germany, Italy and Belgium



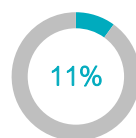
Countries where Korian operates - market overview and main trends.

LT Care Market	FRANCE	GERMANY	ITALY	BELGIUM
Total Market Value	€18.1 B	€26.7 B	€6.6 B	€5.3 B
# of beds	603,823	1,284,918	390,000	145,679
# of beds per 1000 people aged >80	165	178	95	228
2015-30 CAGR population aged >80	1.6%	3.3%	2.2%	1.7%
Avg. daily fee	110	100	90	110
Avg. EBITDAR mg. ⁽¹⁾	22.1%	21.2%	15.6%	18.3%

Fragmentation:
(% of market's total capacity)

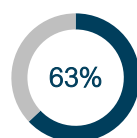


Public and Charitable sectors

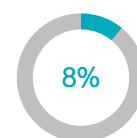


Top 5 Players

Korian	4.0%
Orpea	3.2%
Domus Vi	2.5%
Colisée	0.8%
Domidep	0.7%

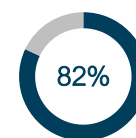


Public and Charitable sectors

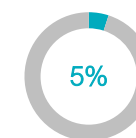


Top 5 Players

Korian	2.2%
Alloheim	1.5%
Pro Seniore	1.5%
Orpea	1.3%
Kursana	1.0%

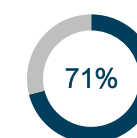


Public and Charitable sectors

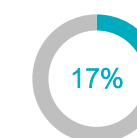


Top 5 Players

Kos Group	1.6%
Korian	1.4%
Sereni	0.7%
Orizzonti	0.7%
Orpea	0.6%



Public and Charitable sectors



Top 5 Players

Armonea	5.1%
Korian	4.8%
Orpea	4.0%
Senior Assist	2.0%
Vulpia	1.4%

Main Trends:

- People aged 85+ are expected to grow at an annual rate of **2.46%** until 2035.
- 25,000-30,000 new beds will be needed in the next 5-10 years.
- People aged 85+ are expected to grow at an annual rate of **2.27%** until 2035.
- The dependent elderly will increase by 30% by 2022.
- Need for 200,000 beds over the next years.
- People aged 85+ are expected to grow at an annual rate of **2.36%** until 2035.
- 4th highest life expectancy in OECD countries, but consistently poorer health indicators.
- People aged 85+ are expected to grow at an annual rate of **1.90%** until 2035.
- LTC facilities' residents are expected to grow by an average of 2,500 people per year until 2025, creating the need of 20,321 new beds.

(1) of the industry, estimated based on information about peers

Source: Company Reports, UN, OECD, Analyst Reports





Investment Committee Paper

January 25th, 2018

Industry Overview | France, Germany, Italy and Belgium

Countries where Korian operates - regulatory framework and pricing dynamics.



	 FRANCE	 GERMANY	 ITALY	 BELGIUM
Regulation	The creation, transformation or extension of a nursing home is subject to the issuance of a license validated by local authorities. The license cannot be used to operate a facility until it has been granted healthcare funding by the relevant authorities.	Once operating licenses have been obtained a facility can be opened, and there is no limit for the number of beds. The facilities are then subject to external audits to assess if quality standards are being met, with the possibility to lose the license if not.	The Italian healthcare system is similar to that of France, where facilities must be licensed and accredited in order to receive funding from the regulatory authorities. Quality standards are set at the regional level and must be met to maintain accreditation.	The Regions are responsible for the initial licensing, monitoring and quality control of facilities. Licenses are issued on the basis of regional healthcare programs, taking into account the population 65+ trend and are subject to approval and unexpected inspections.
Are licenses being granted? Is it possible to open 100% private-pay homes?	NO / n.a.	YES / n.a.	NO / YES	NO / n.a.
Pricing	Treatment Rate - Set and paid directly by the Regional Health Authority to the facility in a single payment that depends on the amount of medical care provided at the facility based on the facility's projected annual budget. Dependency Rate - Set, paid and reviewed each year by the local Department Council to support the daily living assistance services based on the dependency levels of the facility's residents. Accommodation Rate - Set freely in a "residence contract" between the facility and all the new residents. Once this contract is signed, rates cannot be increased beyond the annual maximum increase decided by the Minister of the Economy and Finance.	Operators have to negotiate the following components of their tariffs with local authorities and health insurance funds: • Medical care • Accommodation services These components are highly regulated and paid by the local authorities. The reimbursement is agreed on a case-by-case basis depending on the level of dependency of each patient. Investment portion to cover rental and associated charges is paid by the resident. It is defined for a period of one year and must be set in proportion to the cost of rental, depreciation, interest rates and investments.	Since the Constitutional Law on Decentralization of 2001, the Regions are exclusively responsible for all social policies, including long-term healthcare. Treatment Rate is funded by local Regional Health Authority, it is highly regulated and it is a direct reimbursement of costs (no margin is allowed). Accommodation Rate is paid by the resident and may be set freely in Lombardy, Veneto, Lazio and Apulia but is capped elsewhere. Korian is free to determine it in every facility operated in Italy.	Facilities are not free to set their own tariffs. The regional governments monitor rates and regulate annual increases. Medical care and dependency cost is reimbursed in proportion to the resident's degree of dependency and illness, as determined by the Katz Index. Accommodation rates can be negotiated when the facility is established, which are then indexed to the consumer price index and any increase beyond this must be applied for and substantiated to get the approval from the regional authorities.
Daily tariffs are decided as follows:				
Flexibility to define them?	YES	NO	YES	NO

Investment Thesis

by Tiago Marques



1 Highly cash generative business in an industry with strong long-term fundamentals.

- Growing demand supported by favorable demographic trends, with an ageing population and longer life expectancy, accompanied by insufficient supply.
- Korian enjoys leading positions in four European countries that account for over 50% of all Europeans older than 75 and that are recovering from the past European crisis.
- Cash flow from operations above 70% of EBITDA, due to low working capital requirements and low maintenance capital expenditures.

2 Buy and build, nationally and internationally

- Given typical private ownership of smaller, less efficient facilities and the high market fragmentation, Korian has the opportunity to become the main market consolidator,
- There's the opportunity to expand internationally, with Nordic countries being a tremendous opportunity,
- With the implementation of an effective integration plan, Korian can also take advantage of the opportunities to grow organically via greenfield investments.

3 Operational improvements by increasing quality of service, hiring new personnel for Germany and by fostering synergies at group level

- Improve the quality of the facilities with the refurbishment of 2,000-3,000 beds per year, which will support price increases in France and Italy, and will maintain quality standards to avoid the loss of operating licenses.
- Given the strategical importance of Germany, we are going to mitigate its staff problem by hiring foreign personnel and work more closely with universities to avoid further deterioration of occupancy rates.
- At group level there are several functions that are not consolidated yet and that could generate significant cost savings.

4 Optimize Real Estate strategy

- Sell part of non-core real estate and bet on leasebacks taking advantage of partnerships with real estate companies already in place and use the proceeds to expand our operations.
- Target an EBITDAR over rental expenses above 1.5x (current one is 2.13x). With a growing demand and supply deficit, we believe an expansive posture on this ratio will not increase Korian's risk significantly.

Value Creation Strategy

by Tiago Marques



Value Creation Strategy | Consolidation



There is plenty of room for consolidation in the markets where Korian is, with a big portion of beds being operated by small players.

Our expansion strategy consists in strengthening Korian's position in the four markets where it currently operates.

The four markets are characterized by a **high level of fragmentation** and a **structural supply deficit**.

Opportunity for Bolt-on Acquisitions

Beds operated by private players:

France	Germany	Belgium	Italy
15 largest players: 92,095	12 largest players: 155,996	5 largest players: 25,202	5 largest players: 19,500
37,189	340,815	37,731	50,700

Beds operated by small players.

Average facilities:

France	Germany	Belgium	Italy
71 beds	64 beds	91 beds	57 beds
524	5,325	415	889

Facilities that can be acquired.

It is visible the feasibility of our strategy with the existence of many possible targets to acquire.

Bolt-on Acquisitions: Investment Plan

# Acquisitions	France	Germany	Belgium	Italy
Facilities	80	85	110	35
Beds	5,680	5,440	10,010	1,995

Assumptions

Average Daily Tariff ⁽¹⁾	110	100	110	90
Occupancy Rate	90%	89%	89%	85%
Average EBITDA Mg. ⁽²⁾	7%	7%	7%	7%
EV/EBITDA Deal Multiple ⁽¹⁾	6	6	6	5
EV – Value of Operations (m)	€1,08	€0,87	€1,37	€0,56
Real Estate Price (m) ⁽³⁾	€8,8	€8,2	€8,4	€7,9
Equipment Price (m) ⁽⁴⁾	€1,12	€1,12	€1,12	€1,12

Due to the high number of acquisitions per year, an investment in a M&A team will be made to plan and execute this strategy.

(1) Based on Credit Suisse Industry Report

(2) Estimated based on several players in the sector (margins usually from 5% to 15% depending on the size of the player)

(3) Based on Kepler Cheuvreux's cost estimations for a new facility, construction costs adjusted by country based on EC Harris Research "International Construction Cost Report"

(4) Based again on Kepler Cheuvreux's cost estimations for equipment cost with assumed age adjustment of -70%.

Value Creation Strategy | Internationalization (1/4)

The Nordic region presents the best opportunity to expand in Europe due to its market dynamics and recent trends.

There are also a lot of countries that Korian can expand to, and after a thorough analysis, the conclusion is that the Nordic countries represent the best opportunity :

- funding of private healthcare sector by public funds
- encouragement of governments towards private investments
- need to create more beds
- existence of target companies well positioned in the market
- decelerating outsourcing market

COMMON MODEL

Multi-year **outsourcing contracts** (5-10 years)

Greater uncertainty over sustainability of revenues: in the end of contracts the companies compete against each other for the contract renewal (competing in prices, thus decreasing margins).



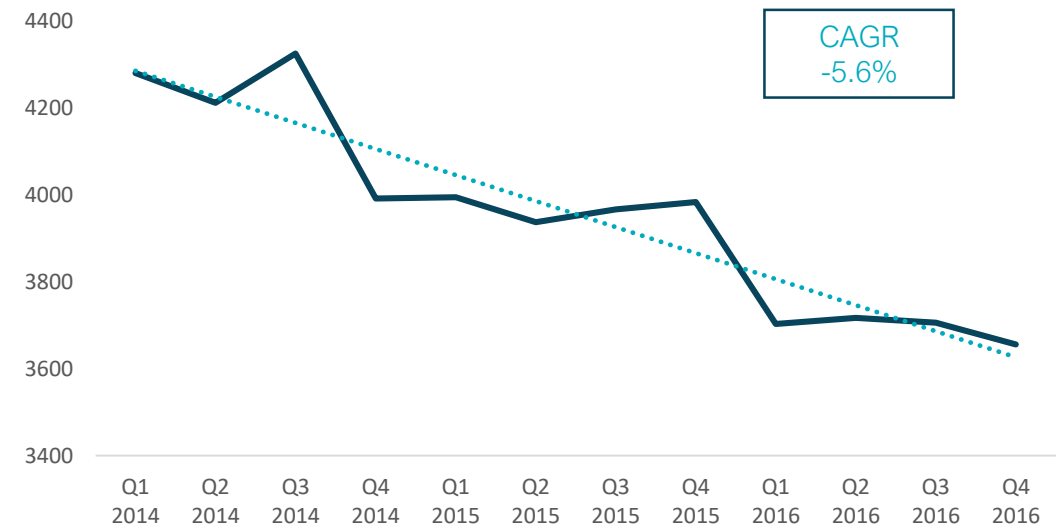
VISIBLE TENDENCY:

Slowing outsourcing market, mainly in Sweden. Companies shift from outsourcing contracts towards building their own operations in this region, to avoid suboptimal building structures and deliver a more efficient care.

The slowdown of the outsourcing market enables companies to increase margins.

	SWEDEN	FINLAND	NORWAY	DENMARK
Pop. Growth 80+ (2015-2040)	55%	61%	33%	72%
LTC beds per 100 people 80+	25%	23%	19%	19%
Need of beds by 2030	45k	35k	n.a.	n.a.
Total Market Size In billion €	7.8	2.7	3.5	2,4

Outsourced Beds - Attendo
2014 - 2016



Aleris and Vardaga represent good targets to implement our strategy, with significant market reach and exposure.

To gain immediate exposure to the Nordic region with a structured organization and a network in place, acquiring an already well-established player might be the best option for us.

POSSIBLE TARGETS:



Vardaga offers individual-focused healthcare and care services in special residential nursing homes for the elderly. Vardaga is one of Sweden's largest private providers of elderly care services with approximately 75 nursing homes throughout Sweden, with 7,000 employees.



Aleris is one of Scandinavia's leading private health care companies. Its services include hospitals and medical centers, child welfare, mental health services, user-controlled personal assistance, elderly care and facilities for the disabled. Aleris has around 11,000 employees in 350 facilities.

Segment	Nursing Homes	Nursing Homes ⁽¹⁾
Countries	Sweden	Sweden; Norway; Denmark
Beds	3,500	n.a.
Market Share ⁽²⁾	6,9%	8,1%
Revenues 16 (€)	225.8 M	261.5 M ⁽³⁾
EBITDA 16 (€)	12.5M	10.46 M ⁽⁴⁾

EBITDA margin improvement as an opportunity: Vardaga and Aleris have an EBITDA margin of 5,5% and 4%, respectively. These values are quite low when compared with Korian. But due to the decrease of the outsourcing model and with the integration in Korian's supply chain, the margin is expected to increase.

(1) The company operates in other segments, but we would only be interested in its Nursing Home division.

(2) In the private long-term care Nordic market (2016) - the private market represented 19% of the total long-term care Nordic market in terms of revenues.

(3) Whole group had revenues of SKR 10B (€ 1.04B; 1 SKR in EUR at 31/12/16 was 0.10461), and the nursing home division is assumed to represent 25% of revenues.

(4) It was assumed an EBITDA margin of 4%, according to Credit Suisse Research

Sweden represents the safest alternative for Korian to expand to the Nordic region, as its business model is becoming more compatible.

HOW CAN AN EXPANSION TO THE NORDIC REGION BE ADVANTAGEOUS FOR KORIAN?

- Diversification in terms of funding and regulatory legislation.
- Acquisition of knowledge relative to the experience of Nordic companies to operate facilities in the most efficient way due to the outsourcing model.
 - Possibility for Korian to enhance this efficiency by integrating costs and by having an exclusive supply chain to all company.



Why Sweden?

- Biggest Nordic market;
- Rapidly ageing population resulting in the highest need in terms of beds to be created;
- Enables Korian to assess carefully the adaptability of its business model to the market characteristics, and if successful consider opportunities to expand to the other Nordic countries;
- Outsourcing market decelerating at a fast pace:
 - Visible shift towards the construction of owned facilities, field in which Korian has a lot of experience and know-how.

Target: **Vardaga** (Ambea's Nursing Home division)

- Whole company is dedicated to nursing homes (our focus);
- Solid target with considerable experience in the market;
- This year Attendo made a deal with a similar profile by acquiring the home care division of the care company Humana, showing that this type of deals can be made.

To take advantage of the slowdown in the outsourcing market, our expansion plan comprises as well greenfield investments in Sweden.

To complement our expansion strategy in Sweden, we plan also to do greenfield investments.

Why?

- The private market is not as fragmented as the previous countries⁽¹⁾;
- There are licenses available for new constructions;
- The government is encouraging private investments: both the outsourcing model and the number of public owned facilities is decreasing (in 2005 the private owned facilities represented 10% of the Nursing Homes market and in 2015 it grew to 19%)⁽¹⁾;
- The rental yields are lower compared to the other countries, making more affordable the leaseback of facilities.

Greenfields Investment Plan

Facilities	10	Total Capex € 16 m	EBITDA Impact € 23 m	Impact/CAPEX 1.44x
Beds	800			

Important assumption:

All facilities will be leased back, as such the development costs will be supported by real estate companies with whom Korian has partnerships. Korian will only support the equipment cost.

Assumptions:

(€ M)	Average situation
Land cost	2.4
Building cost	7.3
Equipment cost	1.6
Total	11.3
Rental yield	4.5%
Average length: 24 months	
Source: Kepler Cheuvreux and Harris Research – International Construction Cost Report	

(1) More detail provided in Appendix: Internationalization (5/5)

Source: Company Reports; Industry Reports

Value Creation Strategy | Operational Turnaround (1/2)

With the renovation of facilities and the resolution of the German staffing problem, we believe profitability can be enhanced.

REFURBISHMENT OF FACILITIES

Restructure
2,000 - 3,000 beds
per year

Annual Investment
€ 35 - 50 M



With modern facilities, value for money perception increases resulting in a higher pricing power.



STAFFING PROBLEM IN GERMANY

Occupancy rates in Germany stand at 85 - 90% due to unavailability of qualified nurses.

To mitigate this problem we plan to:

- Implement recruitment programs of apprentices;
- Implement a program to recruit qualified staff abroad;
- Strengthen the local human resources network with the creation of partnerships with universities.



CAPEX per bed Total Impact on EBITDA / Total Capex ⁽¹⁾
c. 16,000 € 1.52x

Not only they are needed to comply with quality standards and **avoid losing operating licenses**, but also because to increase prices in France and Italy (where Korian is free to set the accommodation rates), the higher rate must be seen as reasonable, as there is a **tradeoff between higher price and higher occupancy rate**.

To recruit abroad there are some countries that are worth our attention:

- South Korea is the one of the countries with more graduated nurses per 100,000 inhabitants (109), followed by Slovenia (77);
- Russia, Lithuania, Romania and Latvia are considered to be the lowest paying countries in terms of nursing salary, which can provide us with the opportunity to recruit personnel looking for better remuneration conditions;
- Austria and Switzerland are also good alternatives because the language is the same and are close countries in cultural terms.

(1) The detailed analysis is provided in Appendix: Value Creation Strategy (1/2)

Value Creation Strategy | Operational Turnaround (2/2)



We are able to deliver higher quality care at lower cost by leveraging our expertise and scale.

FOSTER SYNERGIES

Korian can create more value by exploiting the synergies present in its own facilities. Resulting in:

It is a process that is already in place in the company and our strategy is to **accelerate the consolidation of activities** at group level taking advantage of our range of expertise in a wide variety of fields.

CONSOLIDATED	TO CONSOLIDATE	
Hygiene Products Office supply Elevator Maintenance PCs Printers Car fleet Cleaning products	IT and Telco. Food procurement Fixtures and fittings Uniforms and linen Maintenance Medical supplies	Travel Agency Heavy equipment Small material supply Waste treatment Dishes



- Put in place **long-term contracts** with suppliers, taking advantage of our supply chain specialized teams and its vast network.
- Stipulate **regional and multi-country contracts** to exploit the scale factor and bring to the table more negotiating power.
- Shift purchasing process from wholesalers to manufacturers.
- Reinforce our Engagement & Control process which will contribute to avoid money waste and delays in shipments.

Reduced costs ⁽¹⁾	Improve profit margins
Total savings €220M Average annual savings €44M	Impact of 1.2% in EBITDA mg.

PRIORITIES

- 1

Assemble a team in charge of starting the supplier screening considering our needs and their capability to fulfill them.

The initial focus should be on:
 - IT & Telco.
 - Uniforms and linen
 - Medical supplies
 - Food procurement
- 2

Focus on our controlling process, to improve our quality overall.

 - Set up an independent controlling board constituted by external specialist and service users.
- Quicker impact in terms of cost savings.

RISKS

- Impossibility to tighten long-term regional contracts due to suppliers' incapacity to commit to the amount we require.
- Leverage our vast network and relationships from past deals to find the most suitable partners and consider multiple vendor sourcing.

(1) Planned savings on average purchase cost per bed and average external expenses per bed - more detail provided in Business Plan - Costs and EBITDAR Section and Appendix: Value Creation Strategy (2/2)

Korian should focus on the operation of its facilities, and reduce its asset base by taking advantage of Sale & Leaseback agreements.

OPTIMIZE REAL ESTATE STRATEGY

Korian can sell some real estate to fund its expansion strategy.

- Selling everything would put Korian in a risky position, as its fixed costs (rents) would increase significantly.
- Due to European economies' uncertainty, we prefer to keep a robust real estate base to ensure Korian's stability and provide flexibility in case of an economic downturn.

Sell part of non-core Real Estate → Target: keep EBITDAR above 1.5x Rental expenses

To be able to service debt, pay tax and still invest in maintenance CAPEX, Korian needs to keep EBITDAR at 1.3-1.4x Rents.

Real Estate Portfolio



98 buildings

TAKING ADVANTAGE OF EXISTING PARTNERSHIPS

Given Korian's partnerships with real estate operators (Cofinimmo, Santé, Foncière des Murs) and previous sale and leaseback transactions with them, this process should run smoothly.

TIMELINE

Our divestment process will take place along the 5 years of the investment period and we expect it to be completed in 2022.



Partnership since 2004.
French company specialized in leasing building in the European hotel sector. Leading player in commercial property.

Partnership since 2017.
Real estate player which designs innovative real estate products and services adapted to new urban lifestyles and habits. Icade is a significant player in the Greater Paris area and major French cities.















Partnership since 2008.
First listed Belgian real estate company specializing in rental property. Cofinimmo supports healthcare operators in their growth and helps them to renovate and expand their facilities. One of the major real estate investors in the healthcare market in Europe.

Source: Company Reports

Value Creation Strategy | Management to Implement the Strategy



Korian has the means to execute our strategy, although an investment in a strong M&A team is necessary and a CEO for Sweden must be recruited.

	Sophie Bossard	CEO	Bossard has been working with Korian since 26 January 2016, Between 2012 and 2014, she was responsible for the SNCF group's (railway company) strategy and development.		TBD	CEO for Sweden	The group will need a CEO to take care of the Swedish division. Our suggestions are: Ulla Tanse, the current Head of Vardaga or Henrik Borelius the former CEO of Attendo.
	Charles-Antoine Pinel	France Senior	Pinel has been with Korian since October 2016. He has 15 years of experience in tourism residences.		Laurent Lemaire	CFO	Lemaire has been with Korian since 1 st March 2016. Previously he was CFO of SOPRA STERIA GROUP and he also served as a financial director for Danone.
	Nicolas Mériot	France Health	Mériot has been with Korian since October 2016. From 2014 to 2016, he was CEO of Lavorel Group, a health care operator.		Remi Boyer	HR	Boyer has been working with Korian since 1 st September 2016. Before he was VP Talents and Top Management of PSA Peugeot Citroën Group in 2015.
	Arno Schwalie	CEO for Germany	Schwalie has been with Korian since July 2017. He has an extensive experience in the areas of hospitality and services, but has none regarding the Healthcare sector.		Didier Armaingaud	Quality	Armaingaud has been working with Korian since 1 st June 2016 is a qualified doctor with a specialization in Gerontology. Before he was the Medical and Quality Director and Medica for 15 years.
	Mariuccia Rossini	CEO for Italy	Rossini works for Korian since 2007. She founded Segesta in 1995 and has been CEO since then. She has deep knowledge about the Italian market		Caroline De Jessey	Marketing and Comm.	De Jessey joined the Korian Group in June 2017. She was the Communications Director for Gares et Connexions SNCF group, and then for SNCF Immobilier (2014-2017)
	Bart Bots	CEO for Belgium	Since 2005 the Senior Living Group's CEO. Until 2014 in Korian, after merger with Medica, he was the Senior Living Group's owner.		Frédéric Dourousseau	Real Estate	Dourousseau has been working with Korian since 10 th October 2016. In 2014 he is appointed Chief Development Officer of Center Parcs Europe for the Pierre & Vacances Group.
							
	TBD	Investment Team	Our high level of bolt-on acquisitions will require a dedicated M&A team. They will prospect the market, complete Due Dilligence on the bolt-ons and carry negotiation processes. This team will have a full budget of €5 million per year, which includes salaries and business expenses. This team will report to the BoD, and the Lisbon Capital Group will provide high-level support as necessary.				



Business Plan

by Miguel Mecó

Business Plan | Operating Model

Investment focused on 2018/19, with correspondent growth and stabilization by 2022, and FCF generation 2.3x higher in 2022 vs 2017



	Values in M €	2014A	2015A	2016A	2017E	2018E	2019E	2020E	2021E	2022E	5y CAGR
1	# of beds in operation	57 058	59 715	71 869	75 326	82 359	93 269	99 076	105 633	105 370	6,9%
	% growth		5%	20%	5%	9%	13%	6%	7%	0%	
2	Revenue	2 222	2 579	2 987	3 085	3 366	3 959	4 329	4 710	4 879	9,6%
	% growth		16%	16%	3%	9%	18%	9%	9%	4%	
3	EBITDAR	614	678	796	825	832	985	1 119	1 234	1 352	10,4%
	% margin	28%	26%	27%	27%	25%	25%	27%	27%	28%	
4	EBITDA	315	340	421	437	396	496	577	638	734	11,0%
	% margin	14%	13%	14%	14%	12%	13%	13%	14%	15%	
5	FCF before financing	115	51	-201	242	-181	146	374	426	566	18,5%
	as a % of EBITDA	37%	15%	-48%	55%	-46%	29%	65%	67%	77%	
6	Net Working Capital	-89	-66	-73	-79	-81	-88	-88	-94	-88	2,2%
	as a % of revenue	-4%	-3%	-2%	-3%	-2%	-2%	-2%	-2%	-2%	
7	CAPEX	142	212	549	45	528	290	136	131	49	
	as a % of revenue	6%	8%	18%	1%	16%	7%	3%	3%	1%	

1. Growth in # of beds in operation mainly driven by smaller bolt-on acquisitions, but also from our investments in Sweden. We plan to increase the beds by 6,000 on average per year.

2. Revenue growth in line with network expansion, and driven also by solving staffing problem in Germany and price increases in France and Italy. Little growth in 2017 explained by the decelerating expansion plan plus decreasing rates in the specialized clinics, which represent c. 30% of revenues in France and Italy. This decrease is expected to prevail until 2021.

3. EBITDAR margin will compress in the first years of the investment period given the ramp-up period of our investments accompanied by increasing personnel expenses. Once our initial investments reach a mature state, the benefits of the multi-country contracts will prevail and the margin will increase.

4. Significant EBITDA margin compression in the first years given our bet in leasebacks, which will then reverse after new facilities become fully integrated.

5. Negative in 2018 (as in 2016) due to big acquisitions, then increases as expansion plan decelerates and real estate sales outweigh investments.

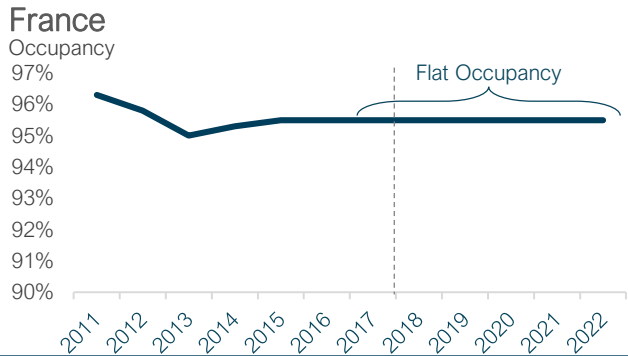
6. NWC will remain fairly constant as no optimization is expected.

7. CAPEX high in 2018 because of Vardaga, then decreases due to slowdown of expansion plan. In 2022 it just corresponds to maintenance CAPEX.

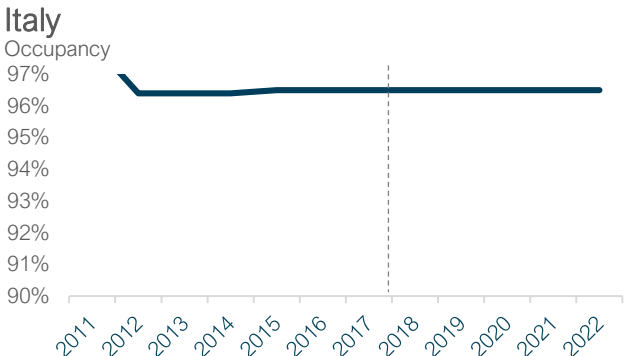
Business Plan | Occupancy Rates



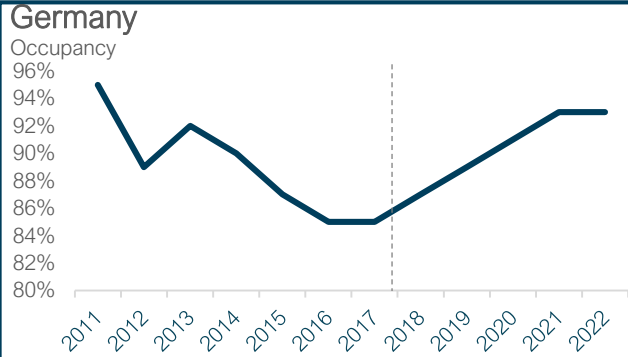
Korian has a mature network, and improvements will be focused in Germany with the mitigation of the staff shortage felt in that market.



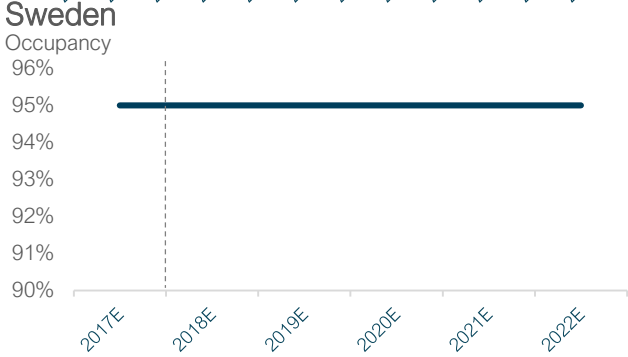
Korian has a very mature network, and occupancy rates will be hard to improve.



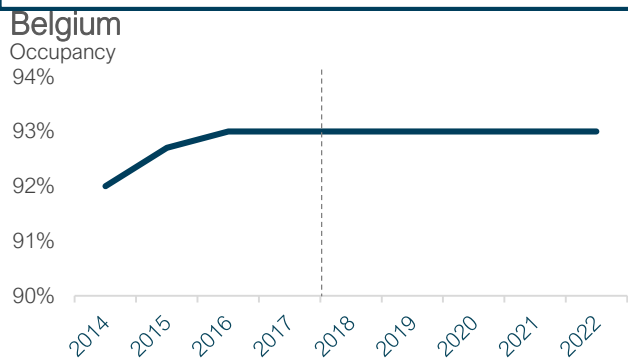
Strongest geography for Korian, due to longer stays of patients. Stable occupancy rate due to no significant changes that can still be implemented.



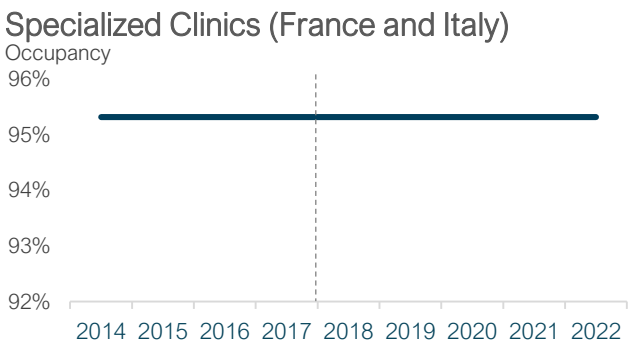
Deficit in nurses is capping occupancy rates. With our initiatives, we expect it to increase to 92% (+7% over 5 years, but still 3% below the average 95% of other countries).



Occupancy rate estimated from peers, no assumption is made regarding improvement or decline.



Korian also has a mature network in Belgium, so increases above the current threshold will be minimal, and not forecasted in our model.



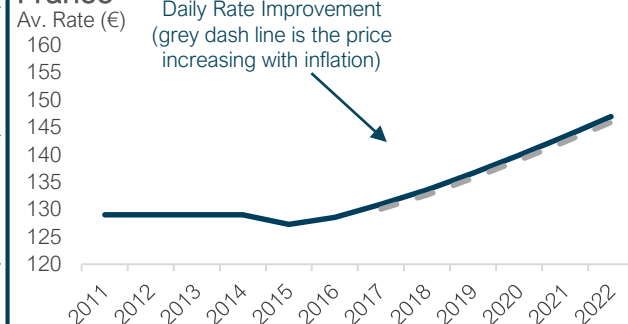
Mature network, so stable occupancy rates of 95% according to Korian's IR.

Overall, we expect modest increases in occupancy rates, driven by Germany.

Business Plan | Average Daily Rates

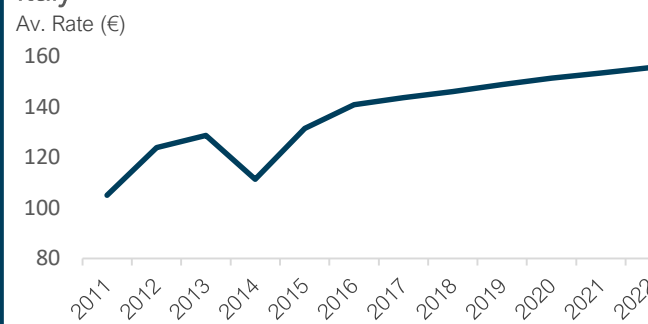
Korian has limited pricing power, as such improvements will be focused in France and Italy.

France



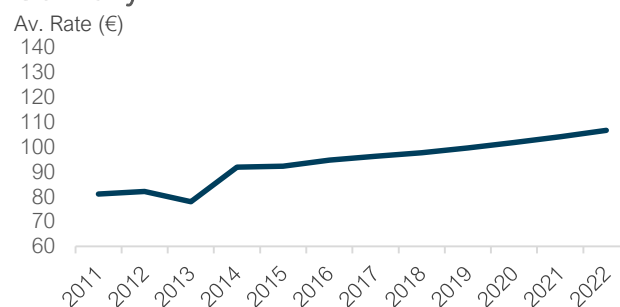
Korian can increase rates only on new entrants, historically c. 1/3 of total residents. In-line with current mgt. expectations, this increase will be around 2% above inflation. Other residents are indexed to public spending, which Korian expects to translate into 0.5% increases over the next years.

Italy



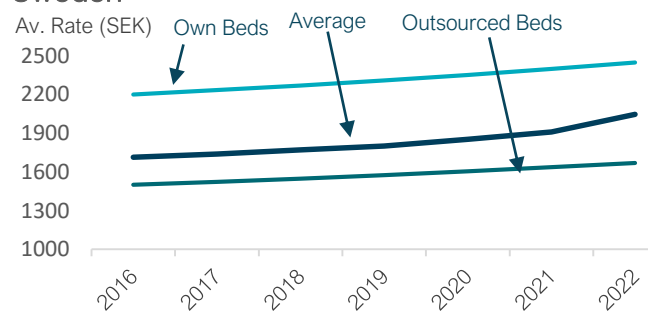
According to Korian's management, Italy has margin to grow in daily rates given that it is only present in regions where rates are not capped, so new patients should have similar growth in rates to France.

Germany



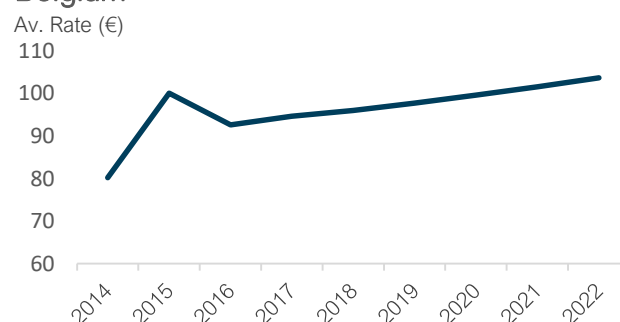
Given the issuance of new licenses, prices should be more competitive, driving more modest increases in line with inflation.

Sweden



In line with our thesis, an increasing percentage of beds in Sweden will be owned, instead of outsourced. Given the higher daily rate on the owned model, we expect increases in the average daily rate. Both the owned and outsourced rates are varying with inflation.

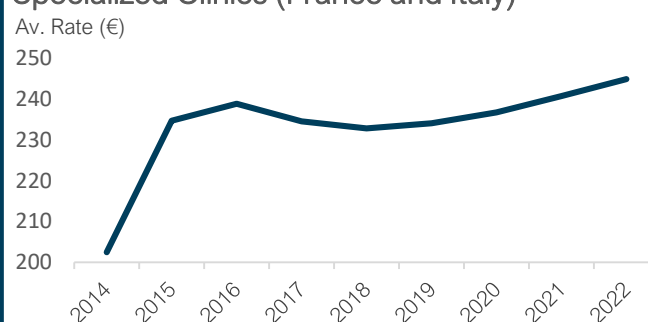
Belgium



Korian can only set prices for additional services in Belgium, so very low margin to increase prices. Again, prices are only varying according to inflation.

Note: Inflation forecasts of IMF, as of 27-Dec 2017

Specialized Clinics (France and Italy)



Given information provided by the company, budget constraints will lead to decreased rates in the order of 2-2.5% over the next 3 years. After that, we expect the market to rebound and grow with inflation, which implies average daily rates only slightly above 2016 levels

Overall, we expect **slightly improving rates**, with improved pricing in France and Italy offset by Specialized Clinics pricing movements.

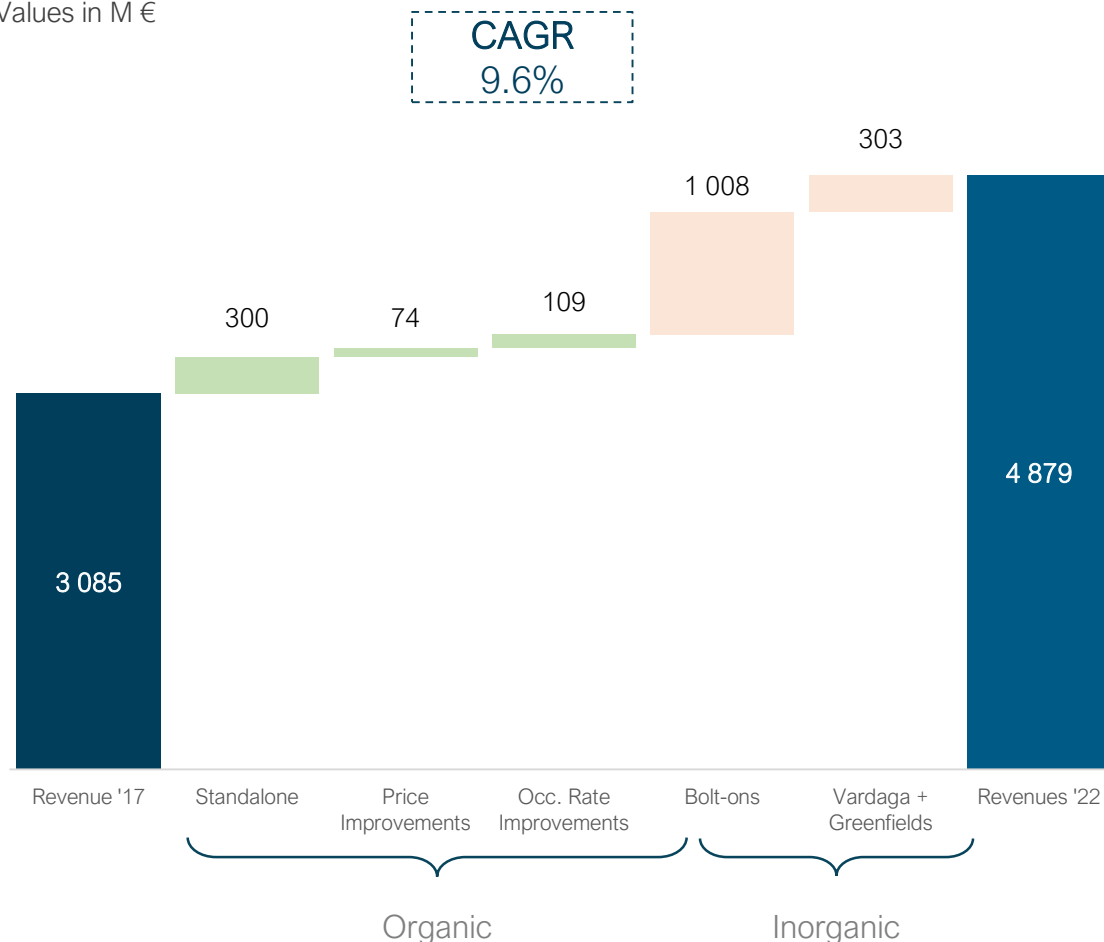
Business Plan | Revenues

Revenue growth will be largely inorganic, but the different targeted geographies can help us diversify the risk of execution.

Revenue Bridge

2017-2022

Values in M €



REVENUE GROWTH 58%

TOP-LINE GROWTH DRIVERS:

- **Average Daily Rates and Occupancy**
 - As explained in the previous slides, France and Italy will drive the price improvements while Germany will experience the only significant increase in occupancy rates, on an aggregate 10% of our forecasted revenue growth
- **Standalone**
 - The beds Korian operates, plus the ones it is already building/restructuring, will drive an additional 17% growth, focused on the 2017-2020 period
- **Bolt-on acquisitions**
 - The bulk of our revenue growth (56%), driving multiple arbitrage (5-7x small vs 10-15x largest operators), synergies and network expansion
- **Vardaga**
 - The final pillar of our top-line expansion, the acquisition of Vardaga and the 10 greenfields we plan to undertake in Sweden will contribute the final 17% to our revenue growth – 13.6% generated by Vardaga itself and 3.4% derived from Greenfields

Year-on-year growth	2018	2019	2020	2021	2022
Organic Growth	1.5%	4.6%	3.7%	2.8%	2.3%
Inorganic Growth	7.6%	13.0%	5.7%	6.0%	1.3%

Business Plan | Costs and EBITDAR

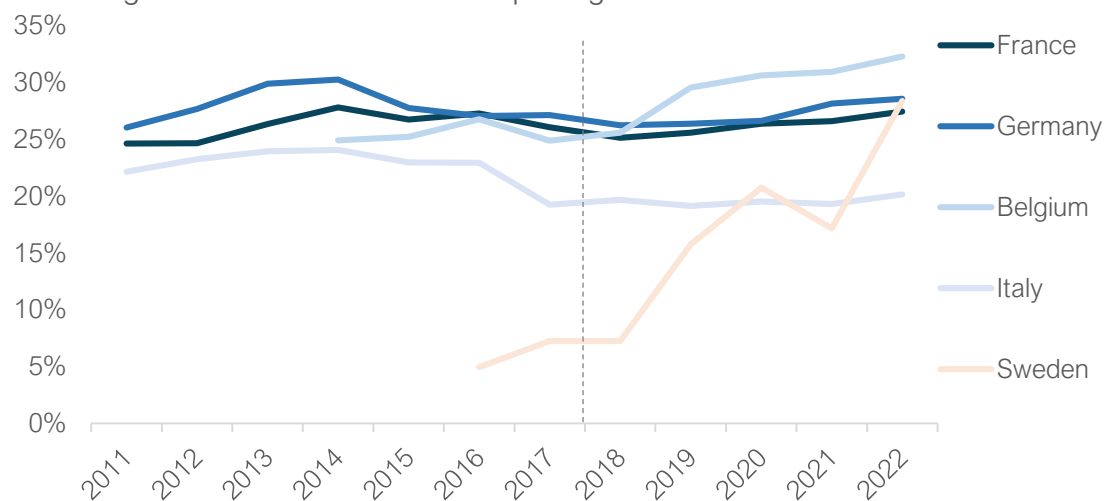


The cost savings will not be completely offset by the increase in staff costs, enabling us to increase the EBITDAR margin by 10 bps.

Values in M €	2017E	2018E	2019E	2020E	2021E	2022E
Revenues (M €)	3,085	3,366	3,959	4,329	4,710	4,879
COGS	248	266	295	316	341	345
	8.0%	7.9%	7.4%	7.3%	7.2%	7.1%
Personnel Expenses	1,541	1,757	2,086	2,258	2,446	2,487
	50.0%	52.2%	52.7%	52.2%	51.9%	51.0%
External Expenses	370	397	467	498	540	547
	12.0%	11.8%	11.8%	11.5%	11.5%	11.2%
Taxes and Duties	100	109	121	133	144	148
	3.2%	3.2%	3.1%	3.1%	3.1%	3.0%
EBITDAR	825	832	985	1,119	1,234	1,352
As a % of Revenues	26.7%	24.7%	24.9%	25.8%	26.2%	27.7%

EBITDAR Margin per country

Including mature facilities and new openings

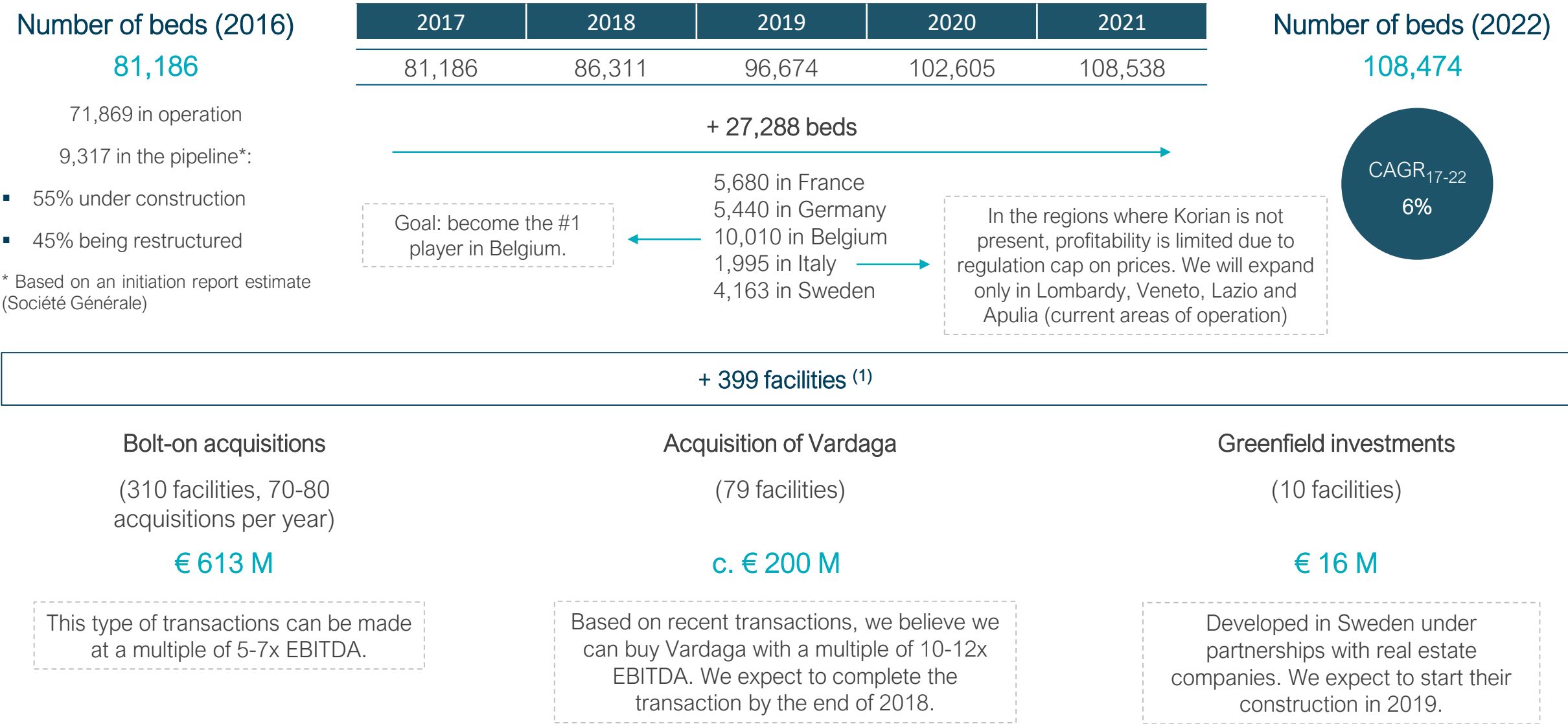


- COGS:** Reduction mainly in Belgium and Italy, with COGS falling to 7% as network matures, a level close to France's 7.3% for 2016.
- Personnel Expenses:** No reduction in the cost per employee is expected, as it is assumed to increase with inflation.
 - In France and Italy the # of employees per bed will remain the same, 0.79 and 0.65 respectively.
 - In Germany, due to the recruitment of personnel abroad, the # of employees per bed will gradually increase from 0.44 to 0.5 (14% increase) aligned with the occupancy rate (7%) increase.
 - In Belgium, the current # of employees per bed is 0.82 which will be gradually reduced to 0.75 as the recent acquisitions made (Foyer de Lork and OTV) become completely integrated.
 - In Sweden, Vardaga currently has 2.04 employees per bed, which will gradually decline to 1.65. This high ratio can be explained by their difficulty in sharing personnel resources between owned facilities and outsourced ones.
- External Expenses:** Multi-country contracts to obtain supplies and external services. Reduction applied to the average purchase cost per bed and to the average external expenses per bed:
 - 3% in 2018/19 to reflect the gradual process of implementing these contracts.
 - 0.5% in 2020 through 2022 as opportunities in longer term arrangements arise.
 - In Sweden this reduction was more aggressive: 6% in 2019 and 1.5% in 2020.
- Taxes and duties** reduced relative to revenue due to expansion to the Nordics. These taxes refer to property taxes and licensing costs. In Sweden, companies are exempt from these taxes.

Business Plan | Network Expansion



Network will be expanded by 27,288 beds via acquisitions and greenfield investments with an investment of around € 830M.



Business Plan | Rents and Real Estate



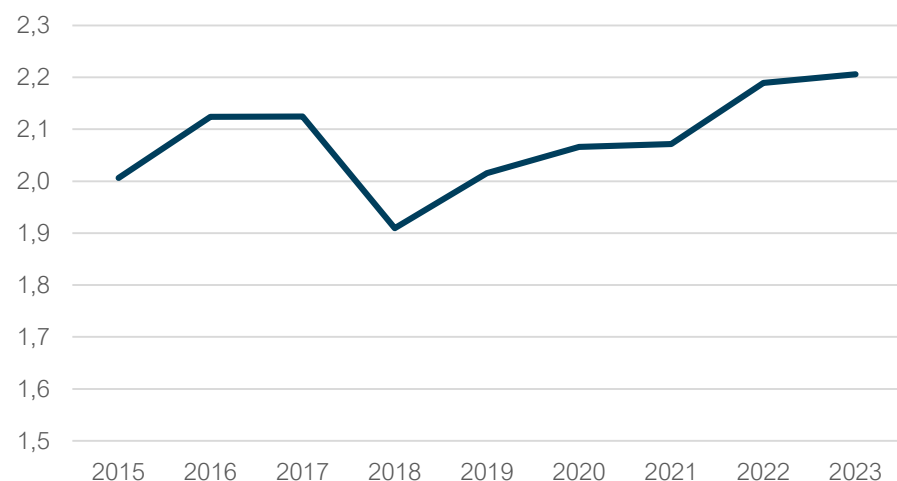
Our Real Estate strategy focuses on retaining key properties, combined to balance-sheet/asset intensity optimization.

OUR REAL ESTATE STRATEGY CONSISTS IN THE FOLLOWING:

- Sell part of non-core real estate and lease it back.
- Leaseback 89% of the acquired facilities. Focus ownership in France and Germany where the rental expenses are the highest.
- The 10 facilities we plan to construct in Sweden will be constructed under leasing contracts.

Main assumption: In the case of the facilities that will be leased back, we assume we will only support the cost relative to equipment and operations. The components relative to land and buildings, and their development, will be supported by the real estate companies with whom we have partnerships.

EBITDAR/Rents - Group Level



Rental Expenses

CAGR₁₇₋₂₂

9.7%

EBITDAR/ Rents	France	Germany	Belgium	Italy	Total
2015	2.29	1.59	1.64	2.11	2.01
2016	2.33	1.93	1.69	2.24	2.12
2017E	2.24	1.89	1.58	1.86	2.02

Owned Buildings	75	11	1	11	98
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Given the current valuation of Korian's property (€1,280 M), on average each facility can be sold by € 13 M.

Planned Sales	15	7	-	7	29
Gross Proceeds	€ 197 M	€ 90 M	-	€ 90 M	€ 376.3
Net Proceeds	€ 145 M	€ 82 M	-	€ 78 M	€ 314.5

Real Estate Market Data	Average Market Value of Land and Building (M€)	Average Rental Yield
France	8.8	6.0%
Germany	8.2	6.3%
Belgium	8.4	5.0%
Italy	7.9	5.3%
Sweden	9.7	4.5%

Business Plan | Cash Flows



The amount of FCF from Operations is on average 9.1% of revenues, although, it is based on an enormous investment in expansion.

Values in M €	2018	2019	2020	2021	2022
NOPAT (M €)	167	214	266	304	376
Depreciations	147	162	166	171	167
Changes in NWC	2	6	1	6	(5)
Maintenance CAPEX	(36)	(39)	(43)	(46)	(49)
CF from Operations	279	343	391	435	489
<i>As a % of revenues</i>	8.3%	8.7%	9.0%	9.2%	10.0%
Bolt-on Acquisitions	(227)	(214)	(86)	(86)	-
Greenfield Investments	(48)	(36)	(8)	-	-
Acquisition of Vardaga	(217)	-	-	-	-
Real Estate Sales	31	54	77	77	77
CF from Investments	(472)	(213)	(33)	(25)	97
FCF before financing	(181)	146	374	426	566
<i>As a % of EBITDA</i>	(46%)	29%	65%	67%	77%

The company generates a good level of cash-flow from operations, although given our aggressive expansion strategy the FCF to service debt is negative in the first year. Given the uncertainty of our investments and the time it takes for them to become rentable, a Revolving Credit Facility should be contracted to partially fund the expansion plan, and provide us with some flexibility to service debt.

Note that, in this type of business, some cash is needed to provide some flexibility to the company to adapt quickly to changing regulation (e.g.: restructure facilities).

Valuation and Capital Structure

by Miguel Meco



Valuation and Capital Structure | Valuation (1/3)

Considering all the valuation methodologies taken into account, we consider fair to offer a multiple of 11.5x EBITDA for Korian.

Valuation Methodology

In the valuation of Korian, it is important to distinguish between price and value.

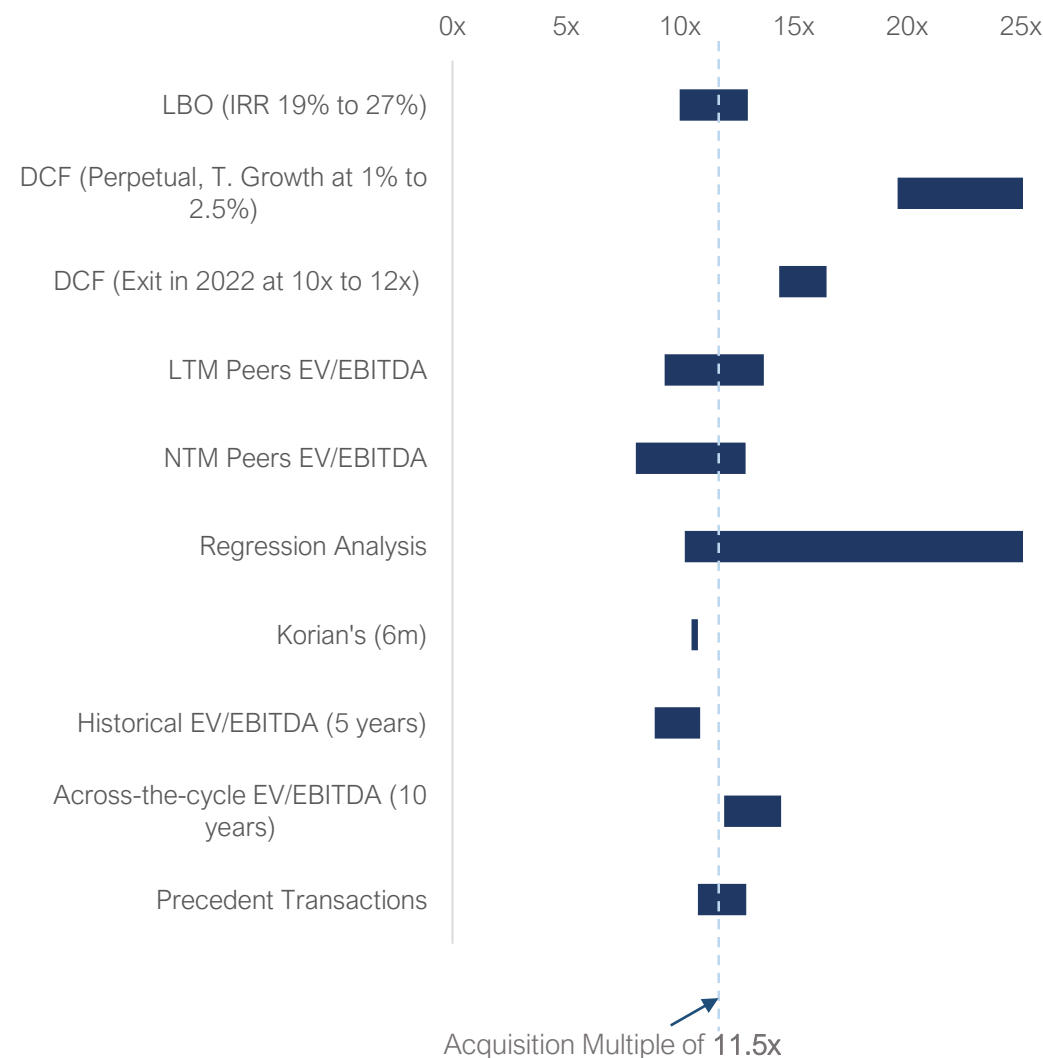
Price is the price we find reasonable to pay, and was determined through:

- **Precedent Transactions:** Comparing transactions in the Nursing Home space, only considering majority stake acquisitions and of an EV above €150m
- **Trading Multiple (6 months and excl. acquisition premium):** Korian's EV/EBITDA multiple, current EV dividend by 2017E EBITDA (consensus est.)
- **Historical EV/EBITDA (5 years):** Korian's EV/EBITDA (next year) over last 5 years
- **Across-the-cycle comps EV/EBITDA (10 years):** Comparables have historically traded above current levels, which points at 2017 being a good entry point in the industry
- **NTM/LTM comps EV/EBITDA:** EV/EBITDA trading multiples, in line with our current estimation for the acquisition

Value is the intrinsic return we expect to derive from this acquisition, derived through fundamental valuation:

- **LBO implied IRR (19% to 27%):** Taking the 10x-14x multiple range, we estimate IRR's ranging from 19% to 27%, assuming exit in 2022, at multiple equal to entry
- **DCF (Assuming Exit in 2022, Exit Multiple 10x-12x):** Discounted Cash Flow Estimation, with WACC (excl. real estate debt) of 5.57% and exit multiple between 10x-12x (assuming minimal multiple expansion only in a best case scenario)
- **DCF (Assuming Perpetual Ownership and Terminal g between 1 and 2.5%):** Discounted Cash Flow Estimation, with WACC (excl. real estate debt) of 5.57% and terminal growth estimation between 1% (conservative floor) and 2.5% (in-line with current analyst estimates)

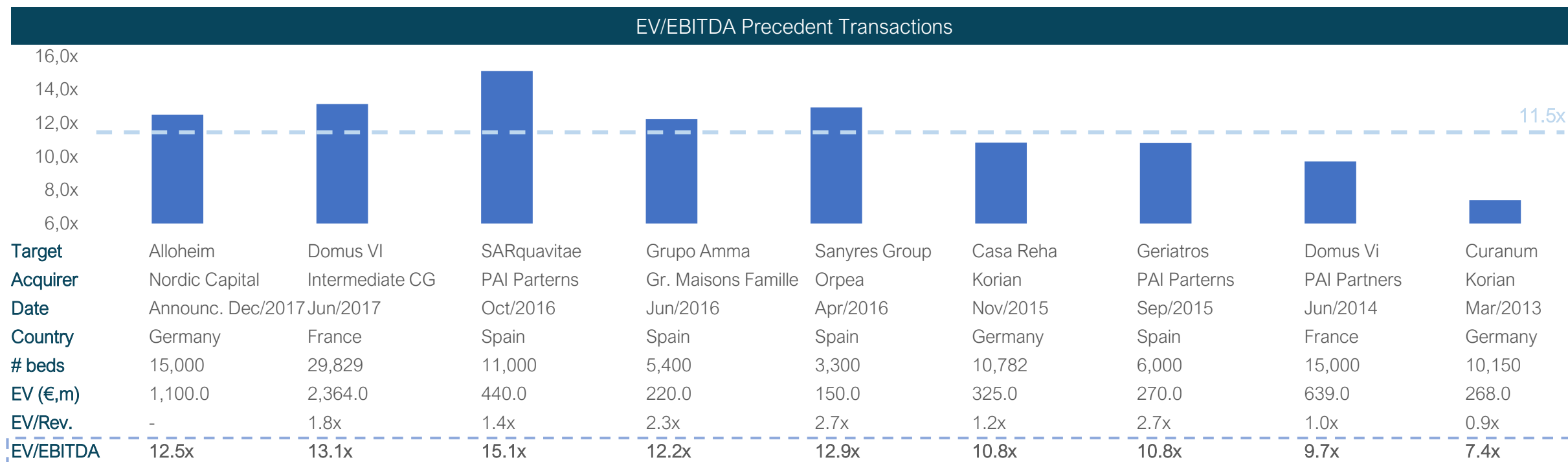
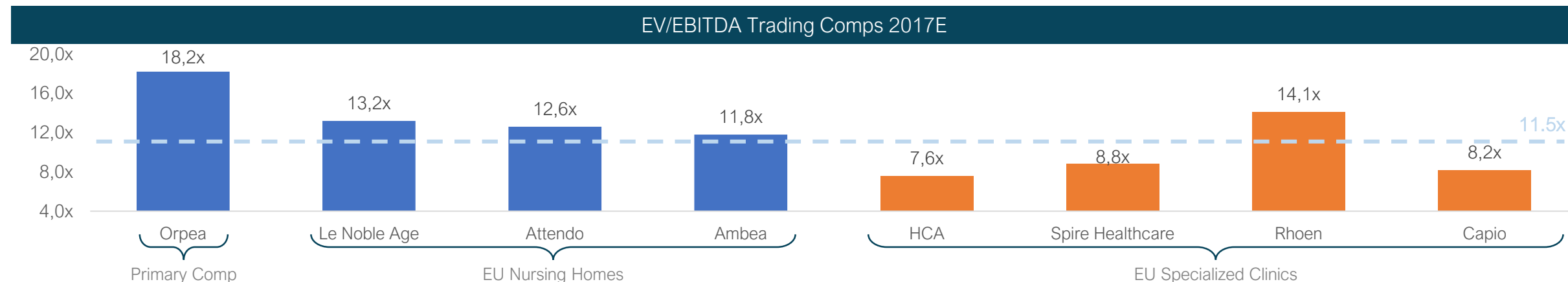
Football Field



Valuation and Capital Structure | Valuation (2/3)



Trading Comps and Precedent transactions are roughly in-line, with Orpea's superior growth potential driving the considerable premium



Investment Committee Paper

January 25th, 2018

45

Valuation and Capital Structure | Valuation (3/3)



Korian's Enterprise Value is above €5bn, and an EBITDAR sense-check valuation confirms the equity price of c. €3.3bn

Run-rate EBITDA 2017E

Run-rate EBITDA 2017E
€437.0m

Assuming maturity of all nursing homes opened in 2017 (c. 1,360 beds). This value is in line with the consensus estimate for Korian, which is around €436m.

EV Adjustments

Pipeline Adjustment
€45.3m

Given the pipeline size estimated at 7,957 beds¹ (9,317 minus the 1,360 included in the 2017 EBITDA) vs. 71,869 in operation, we will adjust this value, in order to compensate Korian's current shareholders for the amounts they have already invested, and the remainder will be included in the CapEx forecasts in our model.

- Regarding Greenfields, we assume Korian has paid for 25% of the Greenfields expected to open in 2018, and 0% for 2019.
- Regarding Restructurings, we are assuming the payments for 2018 were already undertaken and for 2019 are done entirely by us.

It's important to note that while these assumptions may have a significant impact in the acquisition price, they will have insignificant impact on the returns of the acquisition, since the higher the adjustment is, the lower the CapEx investment will be.

¹Estimation of Société Générale; 7,957 equals the 9,317 minus the 1,360 open in 2017 (and therefore included in the 2017 EBITDA)

Enterprise Value and Acquisition Price

Run-rate EBITDA 2017E
€437.0m

×
Acquisition Multiple
11.5x

+
Pipeline Adjustment
€45.3m

=
Enterprise Value
€5,070.4m

Net Debt (million €)

Loans from credit institutions	1481.5
Real Estate Debt (excl. finance leases)	113.5
Unfunded Pension Liabilities	0.6
Bank Overdrafts	15.6
Other Financial Liabilities	290.1
Cash and cash equivalents	309.9
Net Financial Debt	1745.2

Enterprise Value
€5,070.4m

—
Net Financial Debt
€1,745.2m

=
Equity Value
€3,370.6m

Note: Operating and Finance Leases are excluded from Net Debt calculations, as these are part of the business model and, on an EBITDA multiple, the payments for both have been discounted.

EBITDAR Sense-Check

Run-rate EBITDAR 2017E
€821.0m

×
EBITDAR Multiple
9.0x

+
Pipeline Adjustment
€45.3m

=
Enterprise Value
€7,434.3m

Taking 2017E run-rate EBITDA and adding the rent expense, also at run-rate.

EBITDAR Multiple based on trading multiples for Orpea and Attendo

Enterprise Value
€7,434.3m

+
Real Estate Value
€1,280.0m

—
Net Financial Debt
€1,745.2m









—
Operating and Finance Leases
€3,711.1

=
Equity Value
€3,258.0m

Valuation and Capital Structure | Debt Capital Market Analysis ⁽¹⁾



With BNP's Leverage Finance team help, we looked at the options available in the market and the conditions we can obtain for each.

Credit Rating	Recent PE Deals in the Senior Care Sector			Market's Maximum Leverage Appetite
In the absence of an official credit rating, we are assuming a single B rating for Korian for the following reasons: <ul style="list-style-type: none"> Highly levered business Aggressive financial policy typical in private equity ownership 	Acquirer	  		
	Target	  		
	Year	2016	2014	2017
	EBITDA mg	9.4%	9.7%	11.1%
	Leverage-to-EBITDA	6x	6.6x	7.25x
				2017E
				14.1%
				7.5x

Debt Structure: mix of term loans and bonds

- To support leverage 7.5x EBITDA, it will be required liquidity beyond the level that banks are willing to provide.
- Korian is already a bond issuer.

1. Term Loans Market

- Given our aggressive expansion strategy an amortizing structure would not be advantageous in our case.
- Term Loans B, on average, are being issued with a spread of **4%**.
 - Given the strong long-term fundamentals of the senior care sector, we believe we can obtain a lower rate of **3.5% + EURIBOR**.

2. Recent Bond Issuance

Issue Type	Issuer	Rating	Coupon	Leverage
Senior Secured Notes	Voyage Care ('17)	B+	5.86%	5.1x
	Four Seasons Health ('12)	BB	8.75%	3.3x
Senior Unsecured Notes	Voyage Care ('17)	CCC+	10.0%	6.1x
	Four Seasons Health ('12)	B-	12.25%	5.0x
FRNs	Care UK ('14)	B	LIBOR + 5%	4.4x
	Care UK ('14)	CCC+	LIBOR + 7.5%	5.5x

BNP's Quotes

➤	SSN 4%
➤	SUN 6.5%
➤	FRNs 3.75% + EURIBOR

Valuation and Capital Structure | Proposed Capital Structure



After thorough analysis, we propose a Hybrid Bullet Senior and 2nd Lien Structure for a total debt package of €3,271M at 7.5x EBITDA.

Sources of Funds	€ M	x EBITDA	%
Senior debt			
Term Loan B	1,000	2.3x	18.9%
Senior Secured Notes	527	1.2x	10.0%
Floating Rate Notes	874	2.0x	16.5%
Total Senior Debt	2,401	5.5x	45.4%
Subordinated debt			
Senior Unsecured Notes	874	2.0x	16.5%
Total debt	3,275	7.5x	61.8%

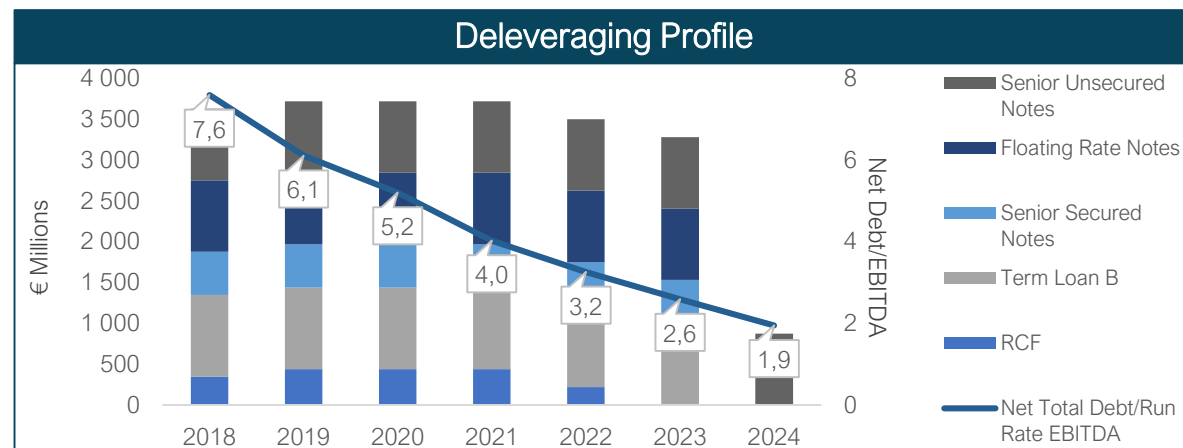
Fixed Return Instrument	1,843	4.2x	34.8%
Ordinary Equity	180	0.4x	3.4%
Institutional Investor (95%)	171	0.4x	3.2%
Sweet Equity (5%)	9	0.0x	0.2%
Total Equity	2,023	4.6x	38.2%

Total Sources	5,299	12.1x
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Uses of Funds	€ M	x EBITDA	%
Adjusted EBITDA '17	437.0		
Entry Multiple	11.5x		
Enterprise Value	5,070	11.5x	95.7%
Net Debt	1,745	4.0x	32.9%
Shares	3,325	7.6x	62.8%
<i>o/w Pipeline Adj.</i>	45.3	0.1x	0.9%

Fees	228	0.5x	4.3%
Due Diligence Fees	51	0.1x	1.0%
Arrangement Fees	51	0.1x	1.0%
Banking Fees	127	0.3x	2.4%

Total Uses	5,299	12.1x
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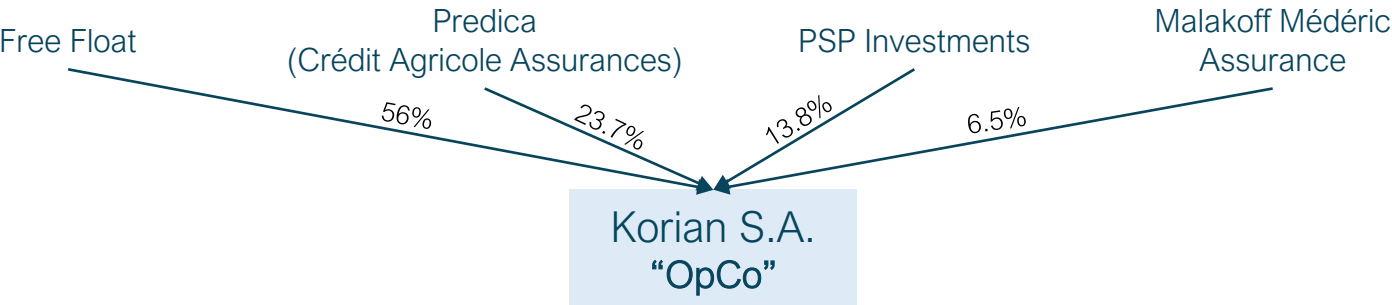
Category	Observations
Sources	Debt: <ul style="list-style-type: none"> Term Loan B (€): 7y 3y Non-callable Senior Secured Notes (€): 7y 2y Non-callable Floating Rate Notes (€): 7y Revolving Credit Facility: 436M (undrawn), 6y 3y Non-callable Senior Unsecured Notes (€): 8y Equity: <ul style="list-style-type: none"> Fixed Return Instrument: 9y Ordinary Equity
Interest & Repayment Details	<ul style="list-style-type: none"> Term Loan B will bear annual interest rate of 3.50% plus EURIBOR. <ul style="list-style-type: none"> Will be repaid in a bullet payment at maturity (no prepayment penalty) Senior Secured Notes will have a coupon of 4% paid annually. <ul style="list-style-type: none"> Non-callable in the first 3 years, afterwards decreasing prepayment penalty. Floating Rate Notes will have a coupon of 3.75% plus EURIBOR paid annually. <ul style="list-style-type: none"> Non-callable in the first 2 years, afterwards no prepayment penalty. RCF will bear annual interest rate of 3% plus a commitment fee of 1.05%. <ul style="list-style-type: none"> Must be fully repaid at maturity. Senior Unsecured Notes will have a coupon of 6.5% paid annually. <ul style="list-style-type: none"> Non-callable in the first 3 years, afterwards decreasing prepayment penalty. The FRI will bear interest rate equal to 12.5% (attributed to the PIK element). <ul style="list-style-type: none"> The repayment will take place in 9 years via a bullet payment.
Covenants	TLB is Covenant Lite: no covenants. Incurrence covenants for Bonds: limitation on indebtedness and restricted payments. Change of control provisions are still under negotiation.
Syndicate Structure	Senior Debt will be issued through an Underwritten type of deal, whose total commitment (about €3.3B) will be guaranteed by the syndicate members. Underwriter fees are expected to be 2.5% of EV, while arrangement fees 1%.
Other	Authorized issue of €700M of Senior Secured Notes, of which €174M will be held back for a tap issue if needed. Shareholder loan assumed to be non-deductible.

Transaction Structure

In line with the fund’s diversification policy, we will initiate discussions with potential co-investment partners

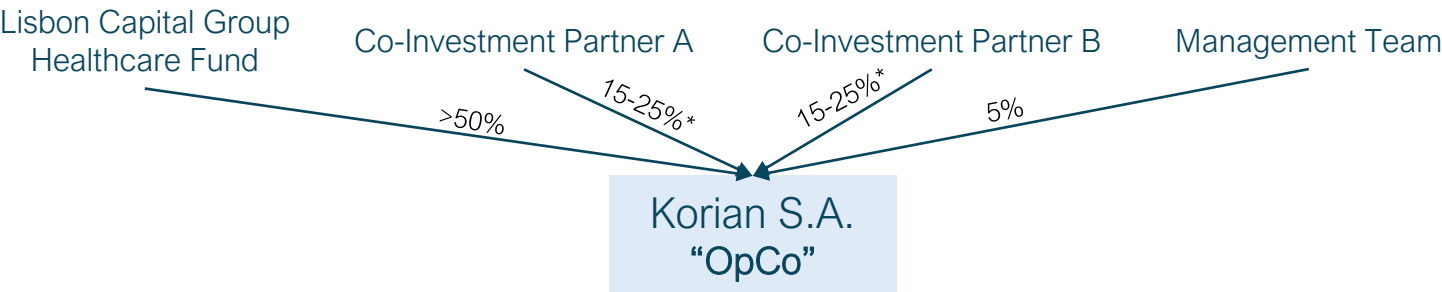


Pre-transaction Structure



Note: The management currently owns 388 shares, which represents 0.000485% of shares outstanding

Post-transaction Structure



*Given the considerable deal size, LCG will propose a co-investment opportunity to several partners, as outlined on the right

Management Package

Given the very low number of shares owned by management, we have assumed no rollover.
The Management Team will be requested to invest 2x their annual salaries, at a total of € 9.0m.

Cash invested by Management		
€9.0m		
Management's IRR	Management's MM	Management's Return
72%	15.1x	€136m

Co-investment Opportunity

We believe a co-investment partner or partners can create value for the fund due to 2 reasons:

- Lower risk, given the considerable size of this deal
- Approval seal for the fund

We will not relinquish control of Korian during our investment, so we will necessarily remain majority shareholders. However, we are willing to allow one or several partners to invest in up to 49% of Korian’ Equity, under the **exact same conditions as the fund**.

Co-investment Partners

In terms of potential partners, the most natural candidates are Korian’s current shareholders, in particular PSP Investments. They have invested jointly in i) Kinetic Concepts, a Medical Devices manufacturer acquired in a \$6.3b buyout in 2011; ii) Cerba HealthCare, an operator of research laboratories acquired for €1.8b in 2017; which makes us believe they would pose the ideal partner in this acquisition.

After the current shareholders of Korian, we have shortlisted several pension funds which could be co-investment partners and have the necessary size for a deal of this magnitude, namely i) the Quebec Deposit and Investment Fund ii) the Canada Pension Plan Investment Board and iii) CalPERS.

LBO Model and Exiting

by Maria Moreira



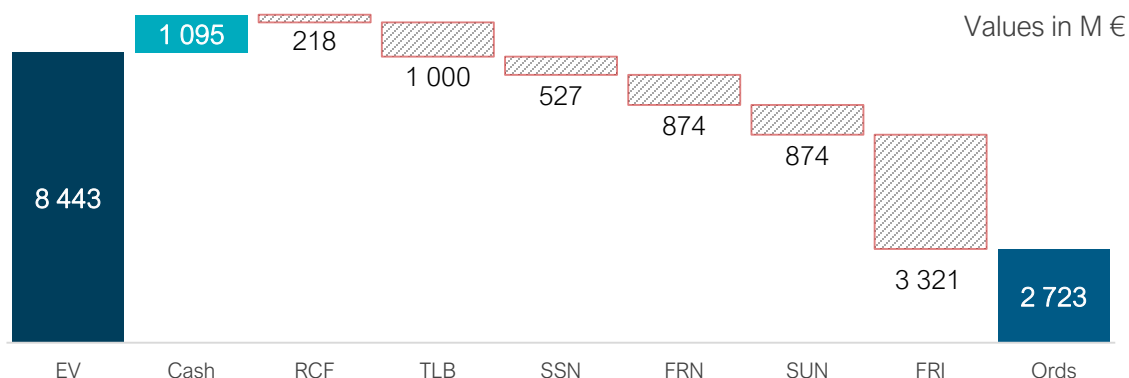
LBO Model | Returns

Our base case assumptions for the operating model and capital structure yield an IRR of 24% and a MoM of 2.9x for an exit in 2022.

Entry: With an entry multiple of 11.5x EBITDA and a run-rate EBITDA of €437M in 2017, Korian is going to be acquired at an EV equal to €5,025M. Additional €45.3M will be paid to compensate the investment already undertaken by Korian for the beds that will open in 2018 and 2019.

Sale: Assuming no multiple arbitrage in this transaction, the company will be sold at €8,443M (EBITDA 2022 equal to €734M).

Exit Waterfall



Expected Returns

- Management Team:** it will enter with €9M for 5% of Ordinary Shares and will receive by the exiting period €136M. This corresponds to an IRR of 72% and a MoM of 15x.
- PE Fund:** it will enter with €2,014M and by 2022, will be able to see its equity stake on Korian worth €5,908M (€3,321M from the Sub Loan and €2,586M of Ords). This corresponds to an IRR of 24% and a MoM of 2.9x.

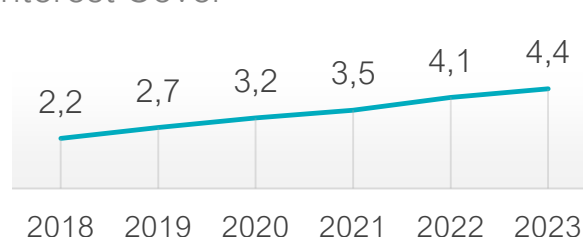
		IRR			Money Multiple		
		2021	2022	2023	2021	2022	2023
Exit Mult	11x	19.3%	22.5%	20.8%	2.02	2.76	3.10
	11.5x	21.4%	24.0%	21.9%	2.18	2.93	3.28
	12x	23.5%	25.4%	23.0%	2.33	3.11	3.46

Credit Stats

Cash Cover



Interest Cover



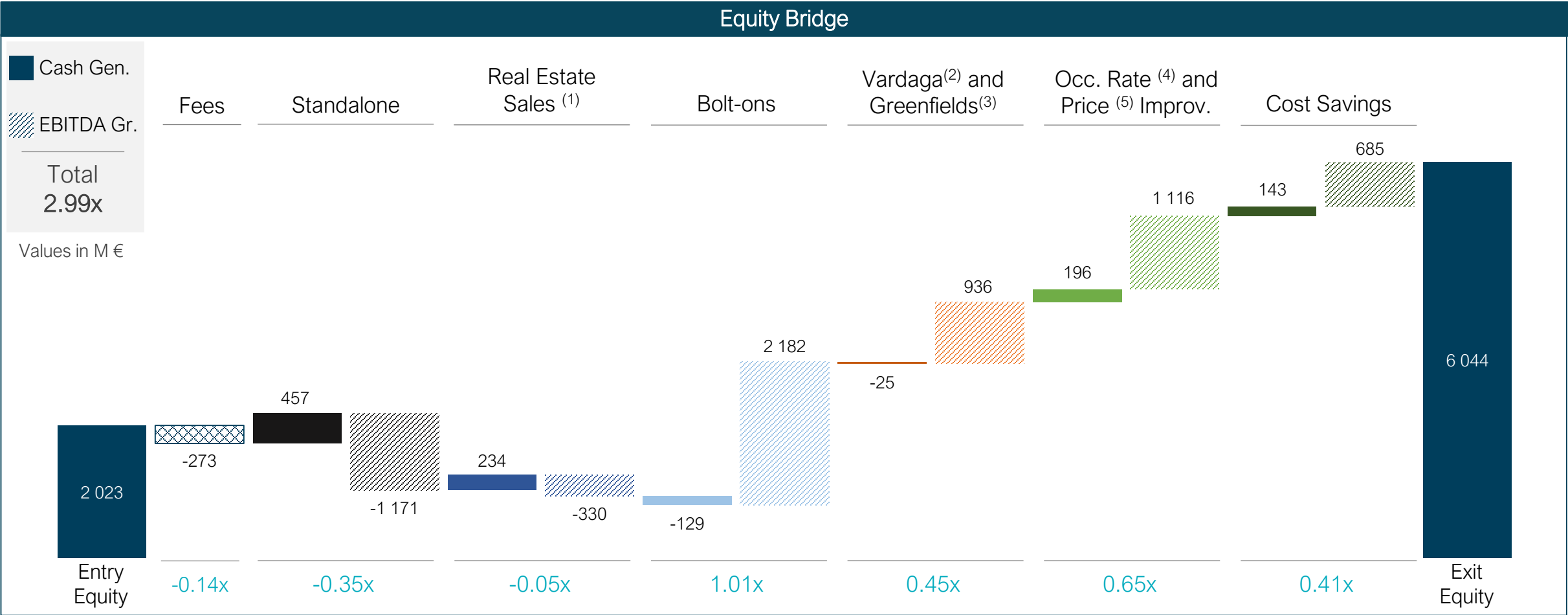
- Cash Cover never goes below 1, although in the first year is tight due to the high CAPEX needed for expansion. In 2022, it starts decreasing because we start repaying the RCF, and it further decreases in 2023 due to the inexistence of real estate sales in that year.
- Healthy Interest Cover Ratio, which increases gradually along the investment period.

LBO Model | Value Creation (1/2)



Equity growth mainly driven by Bolt-ons, which will generate more than € 2B contributing to c. 48% of the value created.

Total Value Creation		Cash Generation		EBITDA Multiple Arbitrage		Revenue Growth		EBITDA Margin
4,294	=	876	+	0	+	2,923	+	495
Value Creation Contribution								
100%		20%		0%		68%		12%



LBO Model | Value Creation (1/2)

Equity growth mainly driven by Bolt-ons, which will generate more than € 2B contributing to c. 48% of the value created.

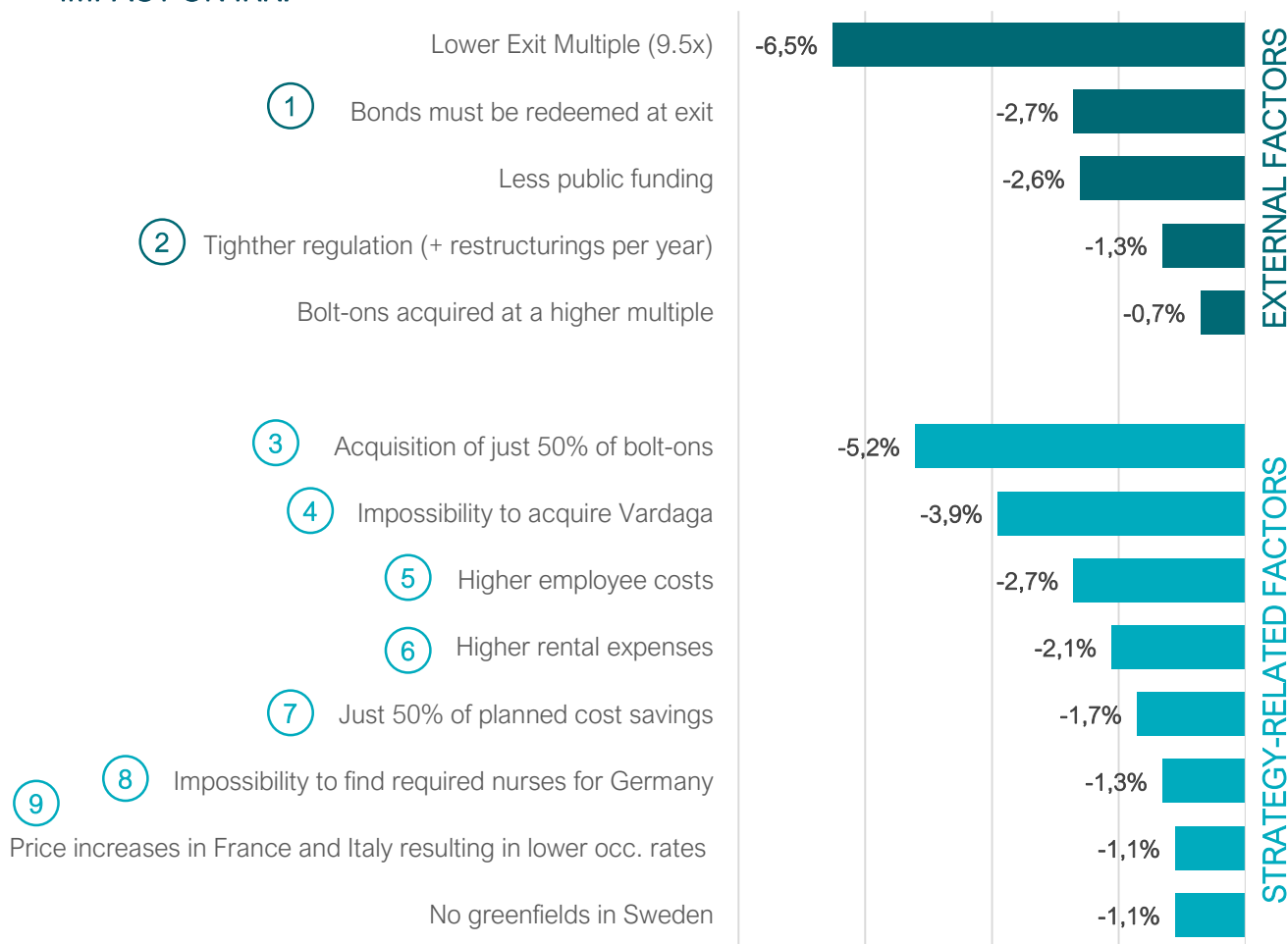
Exploring EBITDA Growth								
Values in M €	2017	Standalone	Bolt-ons	Vardaga + Greenfields	Occ. Rate + Price Improv.	Cost Savings	Real Estate Sales	2022
Revenue	3,085	3,385 (+300)	1,008	303	183	-	-	4,879
		+ 10%	Our strategy will generate a growth of 48% in revenue.					+ 58%
EBITDAR	825	784 (-41)	325	86	97	60	-	1,352
margin	26.7%	Inefficient management of costs; no improvements regarding the staff shortage in Germany						27.7%
Rents	388	449 (+61)	135	4	-	-	29	618
% of revenues	12.6%	Greenfields in the pipeline + annual increase of rental expense in line with inflation	Leasing contracts will be arranged for 89% of acquired facilities	Leasing contracts will be arranged for all (10) greenfields in Sweden			Impact of rental expense increase outweighs cash generated from sales.	12.7%
EBITDA	437	335 (-102)	+190	+81	+97	+60	-29	734
margin	14.1%	+ 9 bps						
		Expansion: COGS and External expenses will change from 20.1% of sales to 18.3% and Taxes and duties' from 3.2% to 3%			Compression: personnel expenses will change from 50% of sales to 51%, while rental expense from 12.6% to 12.7%			15.0%

LBO Model | Sensitivity Analysis of Returns

The major risks to our strategy are the impossibility to implement our expansion strategy, followed by higher personnel expenses.

Sensitivity Analysis ⁽¹⁾

IMPACT ON IRR:



(1) Assumptions explained in the Appendix - LBO Model section.

Investment Committee Paper

Mitigation

1. COC provisions still under negotiation, although when business is sold to a buyer with the same credit rating (e.g. another PE fund) bonds can usually be transferred, avoiding this way the payment of penalties.
2. Keep updated regarding initiated debates so possible changes are anticipated. Keep some cash on-hand to adapt quickly.
3. Strong M&A team to identify possible and attractive targets and ensure an efficient implementation of the strategy. Pay a higher multiple if needed.
4. Assemble a team to approach the target and start negotiations, and also to confirm the market's attractiveness. Offering a higher price is also a possibility: paying 15x EBITDA has an impact of -0,2% (base case: 11.5x).
5. Keep updated regarding regulatory issues and foment good relationships with trade unions to increase Korian's negotiation power.
6. Make an effort to keep the long-lasting relationships with real estate companies in a healthy state to mitigate this risk.
7. Assemble a procurement team to start identifying the best suppliers and manufacturers and start negotiations with them right away.
8. Assemble a team solely in charge of the conceptualization and implementation of the recruitment process abroad. Consider also increasing salaries: a 5% increase in the salary per employee results in an impact of -1.1% in the IRR.
9. Keep facilities well-maintained and refurbished, so customers consider price increase as "fair".

LBO Model | Scenario Analysis

Only in the worst case scenario the fund incurs a loss, although we consider it very unlikely to happen as mitigation plans will be put in motion.

Assumptions

Credit Stats (1)

Bear A			
Entry	Exit	IRR	MoM
11.5x	9.5x	17.5%	2.24x

- Lower exit multiple

Bear B			
Entry	Exit	IRR	MoM
11.5x	11.5x	9.7%	1.59x

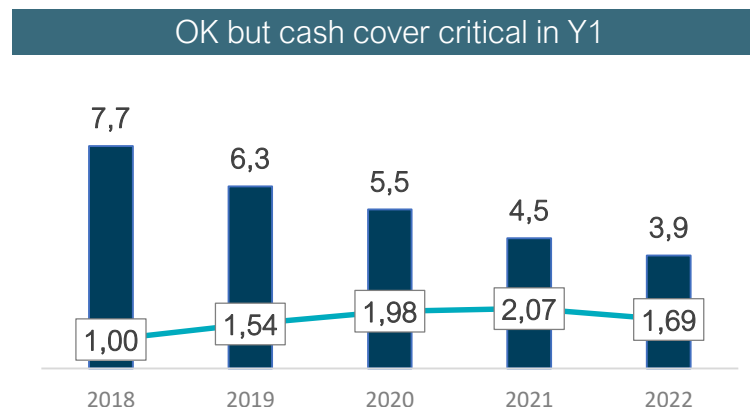
- Acquisition of just 80% of the bolt-ons
- Vardaga acquired at higher multiple (13x vs 11.5x)
- Higher staff costs
- Higher rental expenses
- Just 50% of planned cost savings
- Impossibility to hire as many nurses for Germany as initially planned
- Decreased occ. rate in France and Italy due to price increases.

Worst Case			
Entry	Exit	IRR	MoM
11.5x	9.5x	-6,2%	0,73x

- Same as Bear B, but
- Acquisition of just 50% of the bolt-ons
- Impossibility to acquire Vardaga
- Impossibility to hire new nurses for Germany at all
- More restructurings per year due to tighter regulation
- Lower exit multiple



If bonds must be redeemed: € 786M in penalties		
IRR	MoM	
14.1%	1.93x	



If bonds must be redeemed: € 786M in penalties		
IRR	MoM	
5.2%	1.29x	



If bonds must be redeemed: € 786M in penalties		
IRR	MoM	
-15.9%	0.42x	

Having taken into account all the possible exit options we restricted our most probable route to an IPO or a Secondary Buyout.

Our Exit Strategy assumes that our exit multiple will be the same as our entry multiple: 11.5x

Although we believe that the next few months will be a good entry point (5% discount to 10-year average), we see considerable economic uncertainty in the mid to long-term, given ECB/FED tightening liquidity and budget deficits in the Eurozone potentially constraining social security programs, which leaves us skeptical of forecasting a multiple expansion.

Our Exit strategy is focused on an IPO, followed by a Secondary Sale

An IPO would be our first option as we believe it represents the most suitable route to exit from such a big company, but based on market conditions also a Secondary Buyout should be taken into account. Even if a strategic sale would be the most advantageous process for us, we do not believe in its feasibility because the only Health Care groups big enough to acquire Korian do not operate in the Nursing Homes sector and do not have visible advantages to enter in that market.

IPO

1

Rationale: In our opinion, an IPO represents the most feasible strategy due to Korian's market leader position in Europe. While IPOs have historically generated the highest IRR returns, this trend has reverted over the last 5 years.

Downsides: It is highly market dependent, it is a long and expensive process; It may require exiting in tranches, which is especially negative if we have to hold a minority stake for a considerable period of time.

Mitigation: In our view, the two main drawbacks (Exit multiple dependent on market conditions and long process) can be mitigated due to our Investment Thesis remaining strong after our exit, i.e. Korian can still be a consolidator of a fragmented industry, in a growing market, with high cash generation and strong economies of scale; which can translate in a higher return upon exit.

Secondary Buyout

2

Rationale: Quickest and smoothest exit strategy, and relatively cheap in terms of transaction fees; Investment Thesis remaining strong means PE appetite would be high.

Downsides: The deal size (€ 8,357M) would probably require multiple PE funds to invest jointly, which reduces the advantages of a Secondary Buyout, and the liquidity in the market will also affect market appetite for Korian.

Trade Sale

3

Rationale: A trade sale tends to be advantageous, as the buyer can generate higher synergies and therefore pay a higher multiple. Exit also tends to only be done in full

Downsides: A strategic sale would be transformational for the acquirer, and due to the lack of larger players in Senior Care, it would also imply either Orpea or an Hospital manager to be the acquirer.

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ORPEA

HCA



Due Diligence

by Maria Moreira






Due Diligence (1/3)

Major red flag to verify assumptions for acquisitions as they materially impact our investment thesis.

	Focus	Key areas of analysis	Red Flags	Provider	Timing
Commercial	Growth Outlook	<ul style="list-style-type: none"> Elderly care market outlook, with special focus on countries where Korian operates 	<ul style="list-style-type: none"> Declines in adoption of professional nursing care Forecasts for number of elders below expectations 	McKinsey & Company	30 March 2018
	Competitor Analysis	<ul style="list-style-type: none"> Korian's NH/SC portfolio analysis and comparison to nursing care providers on a region/area/city level 	<ul style="list-style-type: none"> Concentration in highly-competitive areas Poor condition of the homes, or significantly less attractive than competitors 		30 March 2018
	Business Analysis	<ul style="list-style-type: none"> Deeper analysis of daily tariffs composition and the pricing flexibility/outlook Focus on the comprehension of the profitability by segment In-depth analysis of Germany's staffing problem 	<ul style="list-style-type: none"> Daily Tariffs evolution Drivers of occupancy rates and potential points of improvement Bigger personnel deficiency than expected in Germany 		30 March 2018
	Acquisitions	<ul style="list-style-type: none"> Feasibility of acquiring the expected number of facilities and attractiveness of Swedish market Valuation levels for bolt-on operators and Vardaga Integration steps and potential synergies 	<ul style="list-style-type: none"> Process of acquisition lengthier than expected Valuation levels above Korian's willingness to pay, or unfavorable market dynamics Integration process not allowing all acquisitions to be fully functional before exit 	BAIN & COMPANY ⌚	30 March 2018
Regulation	Licensing	<ul style="list-style-type: none"> License attribution for new NH and regulatory issues for the sector Conditions to open new NH in Sweden 	<ul style="list-style-type: none"> Attribution of new licenses in Korian's countries of operation, leading to increased competition Feasibility of greenfields in Sweden 	Avalere®	30 March 2018
	Operations	<ul style="list-style-type: none"> Public Contribution to Elderly Care Daily Rates Regulatory operating requirements 	<ul style="list-style-type: none"> Declining budgets for Elder Care providers, focus on public/non-profit operators, weighting on Daily Rates Increase in staffing or facility requirements 		30 March 2018






Due Diligence (2/3)

It is crucial to analyze Korian's real estate property and the current market conditions, to assess attractiveness of our real estate strategy.

	Focus	Key areas of analysis	Red Flags	Provider	Timing
Financial	Accounting	<ul style="list-style-type: none"> Detailed Balance Sheet, P&L and Cash-flow statement Profitability by type of home and individual home Run-rate EBITDA Working capital and Net Debt detailed analysis Accounting practices/policies Analysis of recent acquisitions consolidation Comparison to Business Plan assumptions 	<ul style="list-style-type: none"> Undisclosed figures significantly different from Business Plan assumptions Run-rate EBITDA below estimated Working Capital or Net Debt mismatch to fund's valuation Any accounting mismatches to reported numbers 		30 March 2018
	Property Management	<ul style="list-style-type: none"> Property-by-property analysis, focus on rental contracts and real estate optimization Verify market value of portfolio Conditions of the facilities and restructuring needs to maintain quality standards, and implied cost 	<ul style="list-style-type: none"> Change of control provisions, or particularly deteriorating and/or unprofitable terms for leased homes Comparison of Real Estate prices to rents for all areas where Korian operates Rental yields increasing sharply in medium-term More restructuring per year or at a higher cost 		30 March 2018
	Tax	<ul style="list-style-type: none"> Tax compliance, both on income taxes and taxes for the operation of NH/SC Tax litigation/outstanding cases Transfer Pricing 	<ul style="list-style-type: none"> Tax liabilities above expected Operating taxes increasing or expected to increase in near-term 		30 March 2018
Valuation & Exit	Valuation	<ul style="list-style-type: none"> Independent detailed valuation, focus on cash generation, EBITDA and capital expenditures Review of completion mechanism and EBITDA, Working Capital and Net Debt adjustments 	<ul style="list-style-type: none"> Valuation levels materially different from LBO 		30 March 2018
	Exit	<ul style="list-style-type: none"> Assessment of potential exit routes via trade-sale and secondary buyout, preliminary discussions with potential acquirers 	<ul style="list-style-type: none"> Low number of interested parties 		30 June 2018

Due Diligence (3/3)

It is also important to assemble the correct management team to implement our strategy, as well as analyze supply chain possible improvements.

	Focus	Key areas of analysis	Red Flags	Provider	Timing
Management	Management Team	<ul style="list-style-type: none"> Individual assessment of core competencies, past performance and individual areas of strengthening Communication and analysis of management's view on investment thesis and management package 	<ul style="list-style-type: none"> Management's skills below market level Management unwilling to continue under PE ownership Management team not receptive to buyout/demanding incentives above reasonable 		30 March 2018
	New Hires	<ul style="list-style-type: none"> Potential experts for Elderly care in Sweden Suitable M&A team 	<ul style="list-style-type: none"> No quality candidates for the Vardaga post Insufficient resources to implement the strategy 		
ESG	Environment	<ul style="list-style-type: none"> Negative environmental impact of Korian's operations, focus on disposal of medical supplies 	<ul style="list-style-type: none"> Potential mitigation costs 		30 March 2018
	Social	<ul style="list-style-type: none"> Assessment of Korian's working and compensation practices Analysis of existing relationships between Korian and worker unions 	<ul style="list-style-type: none"> Deteriorating relationships and possibility of strikes/renegotiations of wages Unlawful working conditions 		
	Governance	<ul style="list-style-type: none"> Analysis of current governance practices 	<ul style="list-style-type: none"> Inadequate internal performance metrics 		
Other	IT	<ul style="list-style-type: none"> IT platform assessment of compatibility between locations and expandability to new houses 	<ul style="list-style-type: none"> Considerable costs of including potential acquisitions into IT system 		30 March 2018
	Logistics	<ul style="list-style-type: none"> Logistics and supply chain analysis, focus on optimization with an expansion of the network Multi-country contracts 	<ul style="list-style-type: none"> Outdated logistics platform and inability to include new acquisitions seamlessly Unavailability of multi-country supply contracts, or no cost savings created 		
	Insurance	<ul style="list-style-type: none"> Analysis of outstanding coverage and cost structure 	<ul style="list-style-type: none"> Low coverage or costs above market levels 		
					30 March 2018
					30 March 2018

A photograph of a diverse group of elderly people. In the foreground, a white woman with short, curly white hair is smiling broadly, wearing a white top and a gold beaded necklace. To her right, a Black woman with glasses and a black beanie is laughing heartily, wearing a white lace top. In the background, other elderly people are visible, including a woman with glasses and a man with a mustache, all appearing joyful. A large teal semi-transparent rectangle covers the left side of the image, containing the text.

Conclusion

by Maria Moreira

Conclusion

After thorough analysis we can conclude that Korian is an attractive buy-out target operating in a very interesting sector.

Transaction Structure

Entry (2018)

Entry Multiple = 11.5x
Enterprise Value upon Entry = € 5,025M
Leverage will be up to 7.5x EBITDA



Value Creation

- Mainly through a consolidation strategy with the increase of the number of beds in operation, on average, by 6k per year. This will be achieved through 70-80 bolt-on acquisitions per year, and the expansion to Sweden, the biggest Nordic market which currently has accentuated needs in terms of beds to be created in the next years (c. 4k beds per year until 2030) and where private investment to construct new facilities is being incentivized to avoid inefficient facilities in the outsourcing market.
- European senior care market spurred by 2.4% annual patient growth in the next 15 years and a rising demand for care of chronic diseases, which will support our revenue CAGR₁₇₋₂₂ of 10% (although, the contribution to growth from pricing is limited). Revenue will also be enhanced by solving the staff shortage felt in last years in Germany, which has been capping occupancy rates, with the implementation of a recruitment process abroad.
- We expect EBITDA margin to increase by 9bps to 15% due to the creation of multi-country contracts to obtain supplies and external services for all facilities, which will generate significant cost savings (c. €44M per year), which together with price and occupancy rate improvements, will offset the negative impact of the increased rental expenses and of the expected increase in staff costs.



Exit (2022)

Most probable route: IPO
Expected Exit Multiple = 11.5x
Enterprise Value upon Exit = € 8,443M
IRR of 24% and MoM of 2.9x

Risk Assessment

Market Risks

- Economic slowdown
- Changes in insurance plans
- Media stories about unethical practices

Operational Risks

- Difficulty to obtain licenses to open new facilities
- Changes in rental yields
- Wage inflation and staff shortage
- Inefficient integration of acquired facilities or inexistence of good targets

Regulatory/Political Risks

- Adverse or stricter Government policies

Final Considerations

- The origin of Korian's growth under the proposed investment thesis will lie on strengthening the presence in the markets where it is already present together with the expansion to the Nordic market.
- As a consequence, this strategy will imply an accentuated CAPEX, which will be followed by a margin compression in the first years of the investment period, that will slowly reverse once ramp-up period of facilities ends.

Thank you for your
attention!

Q&A

